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**THE IMPACT OF MFN FOR CHINA ON  
U.S.-CHINA ECONOMIC RELATIONS**

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Y 4. IN 8/16:C 44/14

*The Impact of MFN for China on U.S....*

**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON  
INTERNATIONAL ECONOMIC POLICY AND TRADE  
AND THE  
SUBCOMMITTEE ON  
ASIA AND THE PACIFIC  
COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED FOURTH CONGRESS  
SECOND SESSION

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**MAY 16, 1996**  
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Printed for the use of the Committee on International Relations



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# JOINT HEARING ON THE IMPACT OF MFN FOR CHINA ON U.S.-CHINA ECONOMIC RE- LATIONS

THURSDAY, MAY 16, 1996

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY  
AND TRADE, AND SUBCOMMITTEE ON ASIA AND THE  
PACIFIC,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The Subcommittees met, pursuant to notice, at 9:45 a.m. in room 2172, Rayburn House Office Building, Hon. Toby Roth (chairman of the Subcommittee) presiding.

Mr. ROTH. Good morning.

We promised to keep this committee hearing today—which is a very important hearing not only for our committee but for the entire Congress—on schedule this morning, and we said we would start at 9:45. So that is exactly what we want to do; we want to stay on schedule for the rest of the hearing.

Welcome to this special hearing of the Subcommittee on Economic Policy and Trade and the Subcommittee on Asia.<sup>1</sup>

I was told earlier this morning that there is a huge interest in this hearing today. It is very timely, and we have some of the best, if not the best, witnesses we could have to help us with this issue that is always in front of Congress, especially in trade relations.

Our focus today is on our trade relations with China. As Congress begins the annual debate over extending Most Favored Nation (MFN) status for China, it is important that we understand how this decision will affect our ability to deal with a nation that soon will be the strongest economic force in Asia and a true global economic power.

When it comes to China, too much of the debate is short-term, narrow-focused, old-thinking. Economic strength, not military might, determines the world's great powers today. Trade is now a strategic issue, for the United States, for Europe, for Japan, and for China. The reality is, for the United States and for our economic competitors, exports are the single largest factor determining future growth.

Maintaining a stable, growing trade relationship with China is in our long-term interest. Look at the facts. China is now the 11th largest trading nation in the world. In just 15 years, China has be-

<sup>1</sup>Due to unfortunate circumstances beyond the Committee's control, all editing of Members' and witnesses' remarks and all statements for the appendix have been lost.

come our 13th largest export market. Last year, our merchandise exports to China reached \$12 billion, up 26 percent in 1 year.

But the key is not where China is today; what is important is where China is headed. The Chinese economy is growing at a 9 percent annual rate. In another 10 years, China's economy will double in size. The Europeans seem to understand this better than we do. Last week, while our relations with China were bouncing from conflict to conflict, the European Union unveiled a long-term strategy to expand their trade with China and to use trade to increase their political leverage in Asia. Europe is thinking strategically about China. So must we.

Without question, we face difficult problems with China, on proliferation, on regional security, on human rights, and on trade. But does MFN give us any real leverage with the Chinese leadership, especially when we are standing all alone on these issues? We have to think clearly about where our interest lies, in the world as it is, not as we might wish it to be.

The trading system has to have an agenda that we have thought through clearly. The day is over for China and for us when we do not really look at the realities of the new situation.

In today's hearing we have some of our best corporate leaders and government experts and scholars to help us think strategically about China. I can think of no more important issue that will be debated this summer than MFN. So I want to take the testimony we have from our witnesses today and make sure that all of our 435 Congressmen and our 100 Senators all have an opportunity to look at this testimony.

I personally will be talking with the Congressmen and Senators about this issue so we make sure we have a good understanding of this issue when we debate this issue, because it cannot be all emotionally charged; we have got to bring reason to this debate.

I am very happy this morning that we have the chairman of our Full Committee on International Relations, Mr. Ben Gilman, with us.

Good morning, Mr. Chairman. I would ask you if you would like to say a few words before we call our first witness.

Mr. GILMAN. Mr. Chairman, I will be brief.

I want to thank Mr. Roth for this hearing as we debate our economic relationships with China in the days ahead, and I want to welcome our distinguished Member of Congress, Nancy Pelosi, who has been so deeply involved in this issue for so many years.

Our Nation's China policy has not been the best. As a matter of fact, it has been a failure. Ever since the Tiananmen Square massacre in 1989, Beijing's weapons proliferation, trade violations—too much debate lately—repression of Christians, Protestants, and pro-democracy advocates, and the population transfer into occupied Tibet have all increased for the worse.

Beijing's recent military provocation off the coast of Taiwan was a reflection of our failed China policy. It was not the result of President Lee's visit to Cornell. The Administration's failure to take action when Beijing violates an MOU agreement regarding weapons proliferation, human rights, and trade agreements embolden Beijing. Tyrants know a paper tiger when they see one.

The Administration waffled on whether or not our Nation would come to the assistance of Taiwan. It took an Act of Congress to prompt the White House to send two aircraft carrier battle groups to the region.

If China violates any agreement, it should be held accountable. It is dangerous to do otherwise. The Administration must stop sweeping aside Beijing's violations of agreements on these critical matters on dismissing enforcement as an attempt to isolate or contain China. This is not any constructive approach to our problems.

Talk of isolation, containment, and political transition periods are generalizations designed to duck some of the hard questions of just how to deal pragmatically and effectively with a totalitarian regime that has the resources to cause great havoc and at the same time is a major market area for our business community.

Working out an agreement with the Chinese is constructive action, and so is penalizing them for failing to live up to their agreements. According to our Defense Intelligence Agency, the People's Liberation Army of China, known as PLA, owns and operates a number of enterprises which produce both civilian and military products which are exported to our Nation under MFN.

The PLA General Staff Department, which owns and operates Polytechnologies, PLA's weapons trading arm, has an office right here in our own Nation and exports its products here.

The PLA General Logistics Department owns and operates a large international conglomerate known as Xinxing Corporation, and it too has an office right here in our own Nation to facilitate its profitable exports.

The People's Armed Police, which is responsible for suppression and occupied in a number of areas, including Tibet; the execution of prisoners throughout China; which provides guards for the Laogai, China's forced labor system; owns and operates China Xinxing Equipment Import and Export; also earns income by exporting to the United States through its U.S. office.

These and other PLA-owned companies regularly export a great variety of products, including, but not limited to, clothing, toys, shoes, hand tools, fish, minerals, and chemicals. Many of these PLA companies have used forced labor to produce their products.

The Christians, Protestants, and pro-democracy advocates who are in prison for expressing their beliefs work for nothing for the PLA. These exports to the United States put our workers out of work and allow the PLA and the People's Armed Police to earn hard currency which directly, in turn, can be used to modernize its forces and carry out its further misdeeds and threaten nations around the world, bullying democratic friends.

We have come to a point where we must realize what we are doing in extending MFN to the Chinese military. As long as they will receive that kind of a preference, I think it would be making a major mistake in extending that kind of trade opportunities to China.

It is desirable with such a major market that China represents, that we try to work out a suitable means to trade with them without sacrificing our ideals and without allowing them to go without penalty when they violate any international agreements.

We will be shortly discussing legislation with regard to MFN treatment with China, and for that reason I think this hearing will be especially helpful to all of us, and I am pleased that our chairman has brought some of our representatives in the business community together who can, I am certain, help us in finding appropriate solutions.

Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Chairman Gilman, for your remarks and for joining us here this morning.

We are very pleased to, of course, have Congressman Martinez, Congressman Faleomavaega, and Congressman Ballenger with us this morning.

Mr. ROTH. To lead off today's hearing, we welcome our colleague, Congresswoman Nancy Pelosi. No Member has been more deeply involved in the congressional debate over China than she has. We know she has strong views over this, and we are pleased she is here today.

Ms. PELOSI. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear before you today.

Let us stipulate right from the start, Mr. Chairman, and Members of the Committee, and Mr. Chairman of the Full Committee, that the U.S.-China relationship is an important one and that we look forward to a brilliant future with the people of China politically, economically, diplomatically, and culturally.

Did you want to say something, Mr. Chairman?

Mr. ROTH. Please proceed.

Ms. PELOSI. As you know, there are serious concerns in Congress about a number of the aspects to the U.S.-China relationship, and I come before you today in my own right but also as the chair on the Congressional Working Group on China and to express some views of Members of our group.

These concerns fall in the broad categories of trade proliferation and human rights. Given that your emphasis today is on the economic nature of the relationship, I will confine my remarks to some of the congressional concerns in this area from our group.

The picture, I am afraid, in terms of the economic relationship is not a good one, particularly in light of the lack of market access to the Chinese market for a vast majority of U.S. goods and services.

Mr. Chairman and Members of the Committee, in my statement I will discuss the trade deficit, international property rights violations, technology, and production transfer, and then MFN. First, I would like to present some of the basic facts of the U.S.-China trade relationship.

The emphasis of supporters of unconditional MFN status for China is, unexpectedly, on exports to China. To understand the U.S.-China economic relationship, however, we must look at how trade has grown in both imports and exports.

Mr. Chairman, I call to your attention a chart titled, "U.S. Trade Merchandise Trade with China, 1985 to 1995." You mentioned in your remarks that we export nearly \$12 billion to China, and I would like to put that figure in perspective.

While overall U.S. exports to China have tripled in the last 10 years, as you can see from this chart, from just under \$4 billion—

do you have the chart, Mr. Chairman?—to just under \$12 billion, at the same time the U.S. imports from China have gone from approximately the same, just under \$4 billion to over \$45 billion, resulting in a \$34-billion deficit from 1995.

I think it is important to note to the Committee that the trade deficit in the last 10 years went from \$10 million—that is with an “M”—in 1985 to nearly \$34 billion in 1995. So in 1985 China was our 70th largest deficit. Now it is our second largest deficit, second only to Japan, and at the current rate it will surpass over \$41 billion for 1996 and, in a matter of a few years, surpass our trade deficit with Japan. This has been predictable and clearly obvious over the years.

Another alarming feature of this trade pattern is the 4-to-1 ratio of what we buy from China as to what they buy in the United States. That even surpasses Japan in terms of ratio of imports to exports, and it is not a healthy statistic. The United States is China's largest export market, with over one-third of their products coming into the United States.

At the same time, U.S. exports to other East Asian markets surpassed our exports to China. In 1995, for example, the U.S. exports to Taiwan, with 21 million people—the exports were \$19 billion, and to China, with 1.2 billion people, were under \$12 billion.

I am sure that you will hear today the statistics proffered on U.S. jobs supported by exports to China. The numbers I have heard cited by the business community range from 180,000 to 220,000 jobs. These numbers are important, yet they must be seen in the larger context of jobs lost through lack of market access, violations of intellectual property rights, and technology and production transfer.

Intellectual property: We should all be concerned about the harm to our economy of the ongoing practice by the Chinese of violating our intellectual property rights, which was estimated to cost the U.S. economy over \$2.3 billion in 1995 alone.

All of the trade numbers I went through earlier on this chart that I call to my colleagues' attention—U.S. merchandise trade with China, 1985 to 1995—all of these numbers do not include the additional loss to our economy of the \$2.3 billion due to Chinese piracy of U.S. software, CD's, videos, pharmaceuticals, books, movies, and music.

We are told regularly by economists and labor force specialists that the future of our economy is our intellectual property, the genius that arises from our great democratic freedom—tradition of freedom of expression and freedom of thought. In that very real way, with the Chinese continuing patterns and practices of theft of our intellectual property, the Chinese are stealing our economic future.

In China, it is possible to buy \$12,000 worth of pirated U.S. software on a CD-ROM for \$10. Pirated versions of Windows 95 were available in China before the real things were released in the United States.

More importantly, the production of stolen intellectual property in China is not only for Chinese domestic consumption. This is a very important point, Mr. Chairman. It is not for their domestic consumption solely; more importantly, our intellectual property is

being stolen and produced for export. China's domestic consumption capacity of CD's is only 7 million CD's annually, and its CD productive capacity is currently 150 million units per year—7 million domestic market capacity, 150 million units per year.

And this is one of the major complaints, of course, in the conflict over intellectual property, that we have to compete with our own intellectual property in the international marketplace when they are ripping it off.

The piracy does not stop at software. There are reports of pirated integrated circuits from China showing up in Paraguay for distribution throughout the Americas. China's piracy of our intellectual property, while at the same time barring access for U.S. products to China's markets, robs American workers of jobs and undermines our global competitiveness.

I support the Administration's decision to publish a preliminary list and commend U.S. Representative Charlene Barshefsky and Deputy U.S. Representative Lee Sands for their unrelenting efforts to protect U.S. intellectual property rights. They have been negotiating, negotiating, and negotiating for a long time. And the time for talk is over; the time for action is here.

We should also be concerned about the harm to our economy of technology transfer and production transfer which is accompanying U.S. investment in China and U.S. sales to China. We all know that the Chinese Government only allows into China a limited number of U.S. products, primarily telecommunications, fertilizer, aerospace, some engineering, and grain, and bars access for most other U.S. goods made in America, and services.

The Chinese Government is very smart in its choices and in managing its economy and technology to their advantage. I have heard many businessmen, for example, say that when companies—Chinese companies, they must present an up-front export plan, that translates into lost jobs here in the United States.

We also know that when many sales are made, U.S. companies, while they will rarely admit it publicly, are privately required or strongly expected to transfer production and/or technology to the Chinese.

The Chinese Government is building its own industries to the detriment of the long-term vitality of our industries, and we are not only letting them do this, we are encouraging them in this practice by just ignoring it.

The aerospace industry is an excellent example of a pattern of technology and production transfer. According to a 1995 study by the Economic Policy Institute, the Chinese airspace industry already employs 500,000 workers manufacturing planes in China and pays them an average of \$50 a month.

Why does that interest us? Well, for example, China is working closely with McDonnell Douglas assembling Western design commercial aircraft, MD-82's, in a coproduction deal. McDonnell Douglas estimates that the Chinese-assembled MD-82's are 10 percent to 15 percent less expensive than those assembled at Long Beach, Mr. Martinez. And the coproduction of MD-90 trunk liners is expected to have dramatically increased Chinese content, reportedly up 85 percent by the end of the production run.

Several years ago, Boeing shut down a plant in Wichita, Kansas, in which American workers produced 737 rear fuselage and tail sections—these parts are now being produced by workers in China who earn \$50 a month.

The Chinese Government's industrial policy of targeting certain U.S. industries is by no means limited to aerospace. It is my understanding that General Motors, for example, has plans to build 28 parts plants in China, plants believed to produce auto parts for export, and will displace American auto workers.

At some level, I understand the position of any given business on the U.S.-China relationship. Each business, after all, is concerned about its own bottom line. But we here in Congress are supposed to have a broader view. We are supposed to keep our eye on the public interest, on the bigger picture, and the bigger picture here is neither pretty nor an encouraging one.

Technology and production transfer can only result in loss of an increasing number of American jobs as we lose our job-intensive industries to a cheaper and more malleable labor force. By that I refer to some of what Mr. Gilman referenced in his remarks about forced labor, et cetera.

The belief that we have only lost and are only losing our low-skilled, low-wage jobs to China is a completely fallacious one. The Chinese Government is carefully and calculatedly building its own economic future by acquiring, overtly and covertly, legitimately and illegally, our technology, our production, and our genius, the very blueprint for our economy.

Finally, since this hearing is about MFN status for China, I will say that the annual review of MFN for China can give the Congress and the Administration increased leverage for the Chinese Government. I believe it is an important opportunity to review the state of the U.S.-China relationship.

During the debate, we must gauge whether U.S. policy is making trade fairer, people freer, and the world safer. We must retain the legislative vehicle of MFN as a tool to make significant progress in these areas. We can only be successful when Congress and the Administration reach common ground on a unified policy which supports American workers, Mr. Chairman, and is true to American values.

With that, Mr. Chairman, I thank you and would be pleased to answer any questions you may have.

Mr. ROTH. Thank you, Congresswoman Pelosi, for your excellent statement.

I have been keeping a tally of the Members who are going to be voting for MFN, and I had you down as one of the Members voting for MFN.

Ms. PELOSI. You could put me down as a question mark, Mr. Chairman.

Mr. Chairman, I hope you are doing the whipping for the other side.

Mr. ROTH. With that, let me say we are honored to be joined this morning by Congressmen Rohrabacher, Gejdenson, Johnston, and Danner.

Let me ask Mr. Gejdenson, because he didn't have an opening statement, if you have any questions of Ms. Pelosi.

Mr. GEJDENSON. First of all, let me commend our colleague not just for the work you have done here today but all the work you have done on this issue and so many others. Clearly, many people, not just in Congress but in the country, look to you for leadership on this issue.

From your statement, it is my sense that you don't believe that a country that controls what people say, what they read, and whether or not they are allowed to meet, that this country can't control what they produce illegally. It is your sense, clearly, that the government just isn't taking the action to shut down these pirating shops.

Ms. PELOSI. Yes, Mr. Gejdenson. The fact is that when these shops are producing hard-core pornography, for example, or disident information, they are shut down very expeditiously. It is, I think, disingenuous to say that the Chinese Government could not do more to address the intellectual property issue.

It is, I think, very well known that many people in the government and in the military have a vested financial interest in some of these factories and these piracy manufacturing sites, and that is one of the reasons why every day that goes by is millions of dollars for them, and the longer they can drag it out, the better for them. It is most unfortunate.

Mr. GEJDENSON. Thank you.

Let me say that I join with you. This is a country that, in almost any category, fails to meet the test for a country that we ought to be just doing business as usual with, whether it is missile or nuclear proliferation, whether it is dealing with its own citizens, or the military attempt to intimidate Taiwan from its free and open elections.

This country, of all the countries in the globe, with its record on fighting for human rights and for our own workers' rights, we have to make, I believe, a very strong stand here.

It is clear that the Chinese are harming their own people, and, as you so eloquently stated in your comments, they are doing tremendous damage to American workers. And while for the longest time America's trade negotiators focused on Japan and Western Europe, and particularly Japan, where the President has been very successful in finding new ways to deal with their trade policies that kept American products out, I think the present threat is China.

The size of the country, the activities they are engaged in, endanger workers in every district in this country. They take jobs out of our factories, and they drive wages down, and the last decade, workers in nonmanagement positions, their salaries have gone from \$460 a week down to \$400 a week.

What you have said here today is an excellent statement, and I hope it galvanizes our colleagues to join with you.

Thank you.

Mr. ROTH. Thank you, Sam.

I want you to keep an open mind. It is my job to make sure that MFN passes, and I just noticed here that I had you down as voting for MFN.

Ms. PELOSI. He is a great whip.

Mr. GEJDENSON. Right after Mrs. Pelosi votes for it, you might have a chance with me, but I may be a little tougher.



Mr. ROTH. I noticed that Ms. Pelosi did give me an in. She said that if they produce pornography, they shut them down. Maybe Dornan will vote with me.

Ms. PELOSI. I hope you are counting on him as the deciding vote.

Mr. ROHRABACHER. I would like to associate myself entirely with the statement of Ms. Pelosi. I thought it was very thoughtful, and it is a call for the American people to understand a threat, and it should be clearer to any right-thinking American, or even anybody else who lives in the West, that what is going on in the mainland of China is a threat to our prosperity and a threat to our security, and unless we come to grips with it, unless we make some stands, we could be at war with mainland China within a decade.

I have said that before, and nobody seems to want to listen to that. Just like in the 1930's, no one wanted to listen to those people, to Churchill, who was out in the middle of the wilderness saying that unless we do something to alter the course of events, there will be a war with Germany again.

What you have outlined is a horror story, and unless something is done, we are going to suffer the consequences. The American people, we already are suffering the consequences of this story.

Let me note that today we are hearing from Ms. Pelosi about the grand theft that is going on of American intellectual property rights on the mainland of China.

The Subcommittee on Intellectual Property Rights passed out a bill in this Congress, H.R. 3460, which is nothing less than Steal American Technologies Act, which will, if enacted—and this goes into my question to you, Ms. Pelosi—if enacted, will publish the details of every American patent application after 18 months, even if that patent has not yet been granted to the American applicant.

Do you think that the Chinese on the mainland will take that information that they have and try to copy American technology even if they have it before the patent is granted? Or do you think they will sit back and say, "I respect the American technology here, and we are so pleased that they have given us that information that we are not going to do anything with that information"?

What do you think, Ms. Pelosi?

Ms. PELOSI. If the performance of the Chinese Government is any indication, we are even getting complaints from some of the textile and apparel—the apparel manufacturers that the government is pirating their patterns, and the rest now, the people that are doing business in China for export to the rest of the world. So the indication is that they would certainly access that information.

But let me say on the subject of intellectual property a couple of things. First of all, China is far and away—I refer you to another chart that I only distributed to—I have many more—the U.S. Trade Representative in 1996, the special 301 decision. It is the watch list.

You will see how China's total losses are over \$2 billion. Then the other people on the priority watch list: The next country is Argentina at \$135 million, from \$2.3 billion to \$135 million. So they are far and away the masters at ripping off the products of imagination in our country.

I would hope that if they open up their own society more, and had more free investigation and open creativity, and then they de-

veloped their own intellectual property, that they would have a greater sensitivity to what it means to steal somebody else's intellectual property.

Mr. ROHRBACHER. If we can change our laws to make it easier for people to steal our technology, shame on us—and H.R. 3460 is the Steal American Technology Act—let me know.

The same people who passed this act through the Subcommittee, Mr. Chairman, supported extending to China the entire data base of our Patent Office on computer disk.

And shame on us. Shame on us if we don't do anything about what you have been talking about today and what some of us have been warning the American people about, and all we get back is a group of American businessmen coming to our office trying to tell us how wonderful it is, that it is in America's best interest that they make their profit.

Thank you, Ms. Pelosi, for demonstrating that it is not in the interest of the United States to stray so far from our basic principles and support the freedom of democracy, and usually our support of prosperity and support of human rights go together.

Ms. PELOSI. Thank you, Mr. Rohrabacher.

Mr. ROTH. We are going to call on people in the order of their arrival. We are going to ask Mr. Martinez if he has any questions.

Mr. MARTINEZ. Thank you, Mr. Chairman.

As usual, whenever a Member of Congress has questions, he makes a statement first, and I look up when Mr. Rohrabacher expresses his deep concern and say, "The sky is falling, the sky is falling." I don't think we are anywhere near that situation. I would hope that my colleagues would keep an open mind. When he referred to Winston Churchill—Winston Churchill referred to Ghandi as a half-naked Indian.

But the fact is, I hope my colleagues would keep an open mind. As the testimony sounds here—and I guess that is the focus of this hearing—the People's Republic of China is not all of our problem. The problem is corporate people who have no sense of loyalty to this country, who want to move their companies abroad, not to reduce the prices of their products to the American people but to make a bigger profit.

Take Proctor and Gamble, a good example—moved to Mexico a long time ago. They go under the guise of selling their products to the open market there to overcome import and export duties. As a result, they may sell there, but they send the bulk of what they produce at that very low wage back to the United States for our consumers to buy, and our consumers don't get a price break on these things.

Our problem with China is, we have to deal with it like we deal with all the other parts of the problem that exist. But I notice here on your piracy chart you have noted Taiwan. I am wondering, have you lumped Taiwan in with the People's Republic of China, or is that just an oversight that Taiwan is not on there?

Ms. PELOSI. This is the list that the U.S. Trade Representative—there are more countries. I could give you a longer list, but these are the top countries though.

Mr. MARTINEZ. I think we should have on that list a comparison of Taiwan, because Taiwan is closely linked to China, being it is

the same country really, although they are in two different worlds right now.

The fact is, if you go to Taiwan, you can go buy a Gucci purse for \$6 and it looks like the real thing. You can buy an imitation Rolex watch that looks like the real thing. You can buy them for \$12. And are you going through that particular area they call Snake Alley? There is every counterfeit American product—Samsonite luggage—you name it, they have got it.

We have a bigger problem than just mainland China, and I think we ought to be looking at all of these things in the context from the perspective of, let's say, looking at the total picture as we work to deal with this problem, not just an isolated problem, because we want to deter them from having MFN status.

I myself concede that the reason that we do this is, we need to continue a dialog with China, and more lately, as the chairman said earlier, we seem to go from conflict to conflict with mainland China rather than trying to work out a common interest or goal that will serve us both.

Let me tell you, individually, I have seen people who come from Hong Kong who have become U.S. citizens here in this country, who open businesses here with sufficient capital that they should have succeeded, but they didn't succeed, and many of those same people are now moving to China, mainland China, doing business there, and not only prospering there by selling the products that they create there, but then exporting here too and creating jobs here.

When we look at the job loss, sure, there are job losses in some areas, but there are other areas that there is job creation. I have one of the largest Chinese populations of any district around, including yours. In fact, the one city I was the mayor of they call Little Taipei now.

I spent 2½ years on the mainland of China, and the economy was no paradise and no picnic. If we have any way of helping people rise up to a democracy, it is through economic recovery. It is what did it in Russia, and this will do it in China too.

Those people in my district who are members of the Chinese community very much want MFN, and I listen to them, because they know firsthand either the repercussions or the assets that come from that trade status. So I hear all of them saying—and maybe from that large Chinese community that you represent in San Francisco you are not hearing the same thing.

Ms. PELOSI. The gentleman has made such a far-reaching and comprehensive statement. I know the chairman will not give me the latitude to address all the things you have said.

I will say this, and that is, yes, I am blessed with a very large Chinese-American community in my district, and many of them are in the import-export business, and they are not particularly fond of the MFN debate, but they really do appreciate freedom. That is why they are here in the United States. So they understand that we have the debate for leverage.

Would they like it to go away? Probably, but they understand about the need for human rights in China.

I don't know when you lived in Asia for 2½ years. Probably it was a while ago, because you have been in Congress for a while.

But I think you have to compare what is happening in terms of political freedom in China not to when you were there but to 10 years ago when there was more hope for freedom of expression that has been repressed since that time.

And if you want to talk about American jobs, listen to what I am saying to you about the transfer of technology, about the ripping off of the intellectual property, about the lack of market access. By and large, most products made in America are not allowed on the Chinese market. That is one of the reasons we have a huge deficit with China.

In conclusion, I will say, in terms of your talking about buying a purse in an alley in Korea, the intellectual property issue is an issue all over the world. I am pointing out to you the watch list of the Administration. And if we don't stop it in China, where it is the most egregious, then we have given away the genius of America throughout the world.

Thank you, Mr. Chairman.

Mr. ROTH. I thank you, Ms. Pelosi, for your comments. Let me say that even in abbreviated form you can do more than hold your own.

Ms. PELOSI. May I just call to the attention of the Committee a book called "Jobs on the Wing:"—I will make it available, as I get more, for the Committee—"Taking Away the Future of the Aerospace Industry."

I focus my remarks on jobs and the economy because that is the focus of your hearing, and I want to make sure that I give you the benefit of some of the documentation I have for my remarks today.

Once again, Mr. Chairman, as always, thank you for your leadership. And the chairman of the Full Committee, thank you very much, Mr. Gilman, for the opportunity.

Mr. ROTH. We know you are on a tight time schedule. We appreciate you being with us this morning.

And we want to all welcome Congressman Ballenger, and I hope he is for MFN.

Mr. ROTH. Let me say to our next panel, unless there is someone that is absolutely forced to make a comment, I would like to go to our next panel because votes will start at 11 o'clock. Instead of beating up on one of our colleagues, why don't we wait and beat up on the CEO's.

Our next panel will be two senior Administration officials, Mr. Peter Tarnoff, Under Secretary of State for Political Affairs; and Mr. Stuart Eizenstat, Under Secretary of Commerce for International Trade.

Thank you for coming here today. I know you had a busy day yesterday. And also, Mr. Eizenstat, on behalf of this committee, let me extend a special welcome to Under Secretary Eizenstat on his first appearance before this committee in this new position.

So whoever wishes to lead off. Stu, why don't we lead off with you. I know you have very busy schedules. If you want to abbreviate your remarks, please do.

**STATEMENT OF HON. STUART E. EIZENSTAT, UNDER SECRETARY, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE**

Mr. EIZENSTAT. Thank you, Mr. Chairman, Chairman Gilman, and Members of the Subcommittee.

Under Secretary Tarnoff will address the importance of renewal of MFN status for China from the political and strategic perspective, and I would like to focus my remarks on the extent to which MFN renewal serves our national economic interests through the creation and expansion of jobs for American workers in our leading export industries.

I would also like to comment on the impact of Western ideas and values that follow closely on the heels of the U.S. Congress.

China today is dramatically different from the country with which we established relations in 1979. Economic reforms are pushing the country's 1.2 billion people through what is conceivably the most rapid modernization in the history of humankind.

In the World Bank's measure of purchase price parity, China is already the world's second largest economy, and by the year 2010 it is projected to have the largest economy in the world, by any measure of calculation. The World Bank estimates that China's infrastructure development expenditures over the next decade will be some \$750 billion. China is fast becoming a hub of the region's rapid modernization.

As China undergoes this rapid and demanding transition, it will either evolve into a positive force moving forward constructively to integrate into the global community or follow a more destabilizing path.

It is in the clear national interest of the United States to seek to influence the direction that China assumes by undertaking long-term engagement. Our goal is to foster a set of political, diplomatic, and economic relations which will provide an incentive to China to act increasingly over time in accordance with international forums.

Building and broadening our trade and investment ties is an excellent way of producing a more stable and mutually beneficial relationship. Such a policy is based on key elements of a business relationship as to undertake cooperation where it is mutually beneficial but to treat differences frankly and effectively where they exist.

Renewal of MFN treatment provides a foundation upon which we can move forward on a cooperative basis, but it also provides us an avenue to pursue our differences and key political insecurity concerns, which will be elaborated on by Under Secretary Tarnoff.

Where there are economic difference with China, we will seek to work them out, but we will do what is necessary to pursue our own economic policy objectives aggressively, availing ourselves of the adequate remedies that exist under U.S. law.

Our willingness, for example, to undertake sanctions announced only yesterday under section 301 for China's refusal to abide by its obligations under their agreement to protect intellectual property rights is consistent with our commitment to respond forcefully to China's economic actions which conflict with their own obligations. Indeed, it is when China's policies are the most difficult that engagement becomes the most essential.

China has now become our fifth largest trading partner, surpassing the United Kingdom and approaching the level of Germany. Our exports to China have increased in an average annual growth rate of 20 percent, supporting over 170,000 U.S. jobs which depend in whole or in part on exports to China.

Our country is the PRC's third largest investor, and this presence has continued to fuel an expansion of our exports as U.S. companies position themselves to serve China's domestic and regional Asian markets. Mutual benefit of MFN status serves as a basis for a vibrant commercial relationship, which in turn provides a foundation for the whole gamut of bilateral relationships Under Secretary Tarnoff will discuss.

It is in our national interest to extend MFN to China because it makes our economy and our global economy stronger and more efficient by providing jobs and expanding commercial opportunities for U.S. firms.

MFN treatment, Mr. Chairman, is not a gift, and it is not a favor to China, it is in our interest. It represents only a normal, not a special, trading relationship such as we have in virtually every country in the world. Indeed, only seven countries do not receive MFN treatment from the United States. Realizing this, every President, Republican and Democrat, has extended MFN to China since relations were normalized in 1979.

The commercial benefits of maintaining this treatment are tremendous. As a provider of low-cost goods that benefit the U.S. consumer, China's exports largely compete with similar products from India and Indonesia, not as much with those made in the United States.

China is a major market for a number of key U.S. products. Last year it purchased nearly 40 percent of all U.S. fertilizer exports, nearly 10 percent of all of our wheat and corn exports. China purchased over \$1 billion of civilian aircraft from the United States, \$700 million in telecommunications equipment, \$330 million of specialized industrial machinery. Its ambitious plans to develop its infrastructure will present vast opportunities for cutting-edge U.S. export sectors.

We estimate that between 1993 and the year 2000, China will expend some \$50 billion on transportation, \$65 billion on developing its energy infrastructure, over \$10 billion on telecommunications equipment, and \$35 billion on upgrading its environment. Indeed, over the coming decades it is expected to purchase hundreds of additional commercial aircraft, dramatically expand its power generation, indeed, more than three times American investment; it will add 100 million telephone lines to the domestic network, equal to the entire number of phone lines already installed in the United States.

U.S. companies are very well positioned to enter, and early aggressive entry into the market is critical because initial purchases will set the standards for technology, equipment, and service procurement which later suppliers will have to follow. Not being competitive in China now means not being a global player in the 21st century.

The commercial and investment relationships also provide an important impetus to the development of legal norms necessary to

supporting a modern industrial economy. The need for instant information, communications, and prompt decisionmaking will assist China in advancing its own economic, political, social, and legal reforms. Denying MFN trade status will hamper this process and hinder China's integration into the world economic system.

In our economic relations with China, we must take the long view. We cannot be impatient. It is important to recognize how far China has come. People are beginning to enjoy now in the countryside and in the towns the fruits of modernization. The non-State sector accounts for approximately 50 percent of China's economic output today, and this proportion grows every year.

Increased wealth is leading to the purchase of TV's and telephones to faxes and computers, which create an enormous flow of information and open the eyes and ears of the Chinese to the West and, in particular, to American ideas and American culture, which in turn will spur even further economic growth.

The greater the U.S. economic presence, the faster China will approach Western economic norms, building greater respect for the rule of law essential for business transactions. Every year thousands of Chinese employees of U.S. companies visit our country, gaining exposure to our economic system.

Chinese employees of U.S. firms in China are often linked to the rest of the world via e-mail and other communications systems. In addition, American firms operating in China play a positive role by providing good working conditions, treating workers with respect, and creating a standard for a competitive business culture which would be undermined by revoking China's MFN status.

The United States should not be the one to close this gradually opening door. Rather, we should encourage further opening. Denial of MFN status would not advance our commercial interests, it would punish U.S. companies and put approximately 170,000 U.S. jobs at risk, from wheat farmers to computer manufacturers, from large corporations through increasingly small- and medium-sized businesses who are used as outsource suppliers. These lost export opportunities would quickly be filled by our Japanese and European competitors without accomplishing our broader objective. Revocation would also undermine our ongoing policy efforts to improve access to China's market for U.S. firms.

China has made some progress in dismantling its extensive centrally planned import regime, and we intend to pursue that still further. The U.S.-China commercial relationship provides one of the strongest foundations for our engagement, which will best position us to assume the challenges, and, to pursue the opportunities in our relationship with China, continuation of MFN treatment remains fundamental. Let us not shoot ourselves in the foot while trying to teach China a lesson.

Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Secretary Eizenstat.  
Secretary Tarnoff.

**STATEMENT OF HON. PETER TARNOFF, UNDER SECRETARY,  
POLITICAL AFFAIRS, U.S. DEPARTMENT OF STATE**

Mr. TARNOFF. Thank you very much, Mr. Chairman.

With your permission, I would like to submit a longer statement to the record.

Mr. ROTH. Please do, and feel free to abbreviate your remarks.

Mr. TARNOFF. Mr. Chairman, thank you very much for the opportunity today to come before your committee to discuss the extension of China's MFN trading status. The issue is of critical importance to our relationship with the country that will become a major regional and global power in the next century. It has tremendous significance for our national interest not only in China but in the Asian region as a whole.

I would like to use my time today to try to put our decision on MFN into a broader context, the entire U.S.-China relationship. The long-term objective of our policy is to encourage China's integration into the world community in order to foster China's adherence to international recognized norms and standards of behavior.

China is at a critical juncture. The manner in which we and others engage China's help determines whether it is a constructive force in Asia and the world or follows a more worrisome and perhaps destabilizing path.

I would like to begin by outlining the two principal reasons why we opposed revocation or the imposition of conditions on China's MFN status.

May I continue?

Mr. ROTH. Please proceed.

Mr. TARNOFF. First, we have practical objections to such action. MFN is a blunt instrument. We have better tools for getting the job done in each of our areas of bilateral relations with China.

Second, the withdrawal of MFN by breaking economic ties and a full range of interests in China. Our economic and commercial relations increase China's stake in cooperating with us and in complying with international norms. Maintaining those relations promotes progress on the issues that we care about.

Relying on other policy tools already available to us, we have tailored our responses to China's behavior for maximum effectiveness. For example, on Taiwan, we have demonstrated resolve when appropriate. At the same time, we have engaged both sides through diplomatic channels to encourage restraint and improve cross-states dialog.

On nonproliferation, we have made clear our determination to fully implement our laws and to respond forcibly to irresponsible behavior. At same time, we have obtained important new Chinese commitments through active consultation.

On human rights, we have kept faith with our principles by promoting appropriate resolutions in the U.N. Human Rights Commission by using every opportunity to voice our concerns bilaterally. At the same time, we have encouraged economic, social, and other exchanges which help to build momentum for long-term progress within China.

In enforcement of intellectual property rights and other trade issues, we have left no doubt about the serious consequences of failing to comply with bilateral commitments and remedying chronic problems. At the same time, we have gone the extra mile to provide constructive technical advice in other ways to foster China's integration in the international economy.



We seek to keep open as many channels as possible for polystrategic and military business and commerce, scientific and technical cooperation, and other forms of political, economic, and social engagement with China. MFN is part of the foundation upon which this broad range of bilateral engagement rests. It provides the access we need to help ensure that China's growing influence on world affairs will be on terms that are consistent with our national interests.

The Administration disagrees with many of China's policies. Where this is the case, we have to protect our interests and encourage China to choose a different path. Not adhering to international recognized norms, a determination to achieve meaningful progress backed by measures that reflect the importance of the issues in question is often the best way of building a stable, productive, and mutually beneficial relationship.

Convinced that the laws and policies we already have in place give us the tools we need for intellectual property rights, respect for human rights, and adherence to nonproliferation is the objective of the United States.

Moreover, we should not and will not adopt a policy of containment toward China. We would gain nothing and risk much if China were to become isolated and unstable. Such circumstances would not be more likely to respond positively to our concerns in areas such as trade, human rights, or nonproliferation. Clearly, it would not.

Let us also remember that in recent Chinese history there has occurred at times international isolation. On the other hand, our policy of facilitating into the international community by means of comprehensive engagement has produced benefits for us in the national security and nonproliferation fields. The Administration's record demonstrates the advantages of continuing dialog with China on nonproliferation.

Recently extensive discussions with China over the transfer of ring magnets to Pakistan's nuclear program led to China's public commitment not to assist unsafeguarded nuclear facilities, including no future ring magnet shipments. It also produced agreement to continue consultations on export control policies and related issues. These consultations will help develop a common understanding on building effective export control policies and practices and strengthen national export control systems.

Earlier in this administration, China formally committed to end all export ground-to-ground missiles covered by the Missile Technology Control Regime. Last year, China supported efforts to secure the indefinite and unconditional extension of nuclear nonproliferation treaties. China's cooperation was instrumental in resolving the crisis over North Korean violations over nuclear safeguards. It is also essential in stopping support for the Khmer Rouge and building peace and stability in Cambodia.

We also must assess in the course of this debate, Mr. Chairman, the impact of MFN on Taiwan and Hong Kong. First, our overall policy toward the People's Republic of China and our decision on MFN must take into account the potential impact on our security and other interests in the nations and other territories surrounding China.

During his visit to Washington last week, Hong Kong's Governor explained very forcefully the tremendous implications of our MFN decision for Hong Kong. Withdrawal of the PRC's MFN status would also severely compromise our ability to contribute to Hong Kong's smooth reversion to Chinese sovereignty next year.

It would have similarly negative consequences for our interests in maintaining peaceful and stable relations between the PRC and Taiwan. As we saw in March, this relationship can be volatile. Beijing's commitment to seek reunification with Taiwan by peaceful means is the foundation of our bilateral understandings with China on the Taiwan question. To ensure that our substantial interests in Taiwan are preserved, we must remain engaged on both sides of the straits. Loss of channels of communication with Beijing on this issue would be disastrous.

From an American perspective, the changes of the last few years in China may appear limited and slow, but from the Chinese point of view they represent important departures from the past. Most importantly, they create expectations for further progress and momentum of reform that in the long term may become irreversible.

At present, however, Beijing's poor human rights record deserves and receives our continued attention and criticism. Despite greater economic freedoms and official tolerance for more open social and cultural discourse, the Chinese Government treats as criminals any who express views that are perceived to threaten the legitimacy of the Communist party's claim to exclusive political power.

Dissidents often serve long sentences in the reeducation through the labor system. This persecution by a government of its own law-abiding citizens, while certainly not unique in the inter global community, this administration intends to use every opportunity to adhere to internationally acceptable behaviors on human rights issues.

In conclusion, Mr. Chairman, the withdrawal of China's MFN status is not in the interest of the United States. It is simply not the right tool for the job at hand. It would not protect the rights and freedoms of China's dissidents, whether on trade or non-proliferation issues, and it would not enhance the security and stability of Hong Kong or Taiwan.

On the other hand, MFN withdrawal would deny real jobs to U.S. workers, jobs that would quickly use to the economies of the setback, the process of openness in reform in China, and cause the greatest harm to those whom we most wish to support and encourage. It would severely hamper our ability to work with one of the world's most powerful nations on a broad range of U.S. foreign policy interests. To some, it would do much more damage than good.

This administration does not intend to downplay or apologize for the shortcomings of many of China's policies. We favor MFN extension not because it is good for China but because it is good for the United States, and the stakes are high for us, for China, and for our other partners in Asia and around the world.

Neither we nor the Chinese can afford to walk away from our joint responsibility to manage our differences in a way that promotes the long-term prosperity of our Nation, the region, and of the global community as a whole.

Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Mr. Secretary.

I was hoping to go to our corporate leaders right after this series of votes, but I think that in fairness to the Members of the Committee we are going to have to ask you to stay for a few minutes. As soon as we are done voting, we will be back and ask some questions. Then we will call up the corporate leaders.

[Recess.]

Mr. ROTH. We finally have the votes behind us. I don't know if we will have votes in the near future. Let us move forward with some expedition here this morning.

Congressman Bereuter has joined us and Congressman Hamilton. We are calling people in order of their arrival. No one is compelled to ask questions, however.

Mr. Faleomavaega, do you have a question for our witnesses?

Mr. FALEOMAVAEGA. One question, Mr. Chairman—I do have a couple of questions, if I might.

I admire your efforts in pronouncing my name, but it is Faleomavaega.

Mr. ROTH. I knew that.

Mr. FALEOMAVAEGA. I want to personally welcome our two distinguished gentlemen on the panel this morning. I just have a couple of questions, if I may.

Mr. Tarnoff, is the People's Republic of China the only country whereby every year the President in the Congress has to go through this whole ordeal of whether or not to grant MFN status?

Mr. TARNOFF. The Administration does make determinations in other countries, but because of the nature of the issue, this is the only one which has required in past years the kind of debate that Congress is going through; that is right, sir.

Mr. FALEOMAVAEGA. We don't do this with Middle Eastern countries like Saudi Arabia who commit human rights violations. Do they get MFN status forever? Why are we putting China on such a restricted basis when we find other countries violate things that are dear to our hearts as well?

Mr. TARNOFF. Congressman, as can you imagine, this is often put before the Congress. Nonetheless, we do have concerns about China.

The view of the Administration is that it is not appropriate or effective to use the MFN tool to obtain satisfaction from China. But we do have to obviously justify our position and the position of the Administration on a regular basis, you are right.

I am sure you heard earlier the statement by Congresswoman Pelosi and her concerns and strong support that we should withdraw MFN status from the People's Republic of China. She had some very strong points, and I am sure other Members agree with her. I was wondering if you can respond to some of the allegations she makes on that.

The contradiction I see is—70,000 people, and yet if pursuing human rights is the basis that we look for an equal or level playing field, we are not saying anything about the crisis in Chechnya, and yet Tiananmen Square seems to be the hallmark of our human rights violations, and I would ask, what would be your response to that?

Mr. TARNOFF. Congressman, we in the Administration share many of your concerns, and we share a commitment to open debate on the issue. Where we differ with her is on the means to the end.

We do not believe that MFN is the instrument. On the contrary, we think, given the statement by Under Secretary Eizenstat and my own presentation, that the revocation of MFN would bring not only a closing down of the opportunities that the United States has to influence slowly, over time, eventually practices in China with which we take issue, but the economic consequences in the region among some of our good friends in East Asia as well as the economic consequences here are simply much too extensive for us to believe that MFN is the way to do it.

Mr. FALCOMAVAEGA. The Administration obviously does support MFN for the People's Republic of China, but at the same time you are slapping a bunch of trade tariffs on these very people that you want to give them MFN status, and we are at the eve of whether or not Congress should give MFN status. It is somewhat of a contradiction if we are doing this—in a good way and I suppose under the circumstances, but it kind of muddles the issue a lot more than ever because of this.

I want to ask if you have a comment on that, Secretary Eizenstat?

Mr. EIZENSTAT. Yes, thank you. The two are not inconsistent at all; indeed, they are complementary. MFN is the basic foundation for our whole trade relationship, not only with China but with large parts of the world.

On the other hand, when we have specific disagreements on specific sectors, when China has refused to implement, as with the intellectual property agreement, a specific commitment it made, then we act.

I served for 2½ years as U.S. ambassador to the European Union. During that time we sued the European Union banana regimes and beef hormones to keep our beef out of there. That doesn't mean we don't keep our trading relationship. We have differences with a whole group of countries on individual sectors where China refuses to act, and we should, and do act forcibly, but that in no way implicates the importance of keeping the broader economic relationship open.

Mr. FALCOMAVAEGA. Mr. Chairman, is my time still open?

Mr. ROTH. Mr. Falcomavaega, your time has expired.

Mr. Bereuter.

Mr. FALCOMAVAEGA. Thank you, Mr. Chairman.

Thank you, gentlemen.

Mr. BEREUTER. I want to welcome both of our distinguished witnesses, especially Secretary Eizenstat. Secretary Eizenstat was perhaps the best ambassador we had to the European Union. If not, he was certainly among the best if we have ever had serve in that capacity.

Mr. Chairman, I had a bill of mine I needed to testify on in the Senate. I didn't get a chance to make an opening remark. I have no disagreement with the witnesses. I would like to use this time to make my opening statement, if I may.

Mr. ROTH. Seeing that you are a cosponsor of this hearing, would you please proceed.

Mr. BEREUTER. I will try to stay within the time limits, Mr. Chairman.

We might rightfully ask ourselves again why we are here debating whether to grant the People's Republic of China so-called MFN status.

Is China in judicial review? No, I don't think so, or we would have been having the same debate about Nigeria today, because that might some day develop weapons, create fuel for weapons of mass destruction.

Well, we have acknowledged that groups that engage in international terrorism, we don't see fit to end their normal tariff status. Maybe it is because China is violating our 1995 agreements while accumulating a huge trade surplus with the United States. Again, that can't be the reason—as reported in 1994, Germans stole more U.S. records, compact disks, and videos—that China and Japan have the largest single trade deficit with the United States.

Perhaps we are having this debate today because China has been challenging us in all of these ways and more, including what appears to the suspicious as a new assertiveness in the region.

To be sure, we have a right to be concerned about all of these developments and take constructive action to correct them. Nevertheless, today's tariff status to China will do nothing to help us address any of these problems.

In fact, today's debate, which is really about China's violation of international norms, is really a self-imposed sideshow. This undermines our ability to deal effectively with these chronic and important issues in U.S.-Sino relations.

We are here today to debate MFN for China because over 20 years ago Congress conditioned the renewal of MFN status to non-market economies on freedom of emigration. But strangely, I did list freedom of emigration as one of the subjects we will discuss today.

Despite the original intent, immigration is not high on the list of bilateral concerns with China. They have said to us in the past, it is reported that—"How many do you want, 10 million a year? 20 million?" In fact, we actively attempt to stop boatloads of Chinese there trying to make it illegally into the United States.

Mr. Chairman, the Jackson-Vanik law is outdated. Its original intent does not apply to the current U.S.-Sino relationship. President Clinton, unfortunately, gave life to this useless relic of the cold war by the ill-advised linking of MFN to China on the "significant improvement in overall human rights conditions," in that country. After discovering this linkage didn't gain us any leverage with problems in China, he wisely flip-flopped and dropped this link, and credibility in the process.

Nevertheless, the statement, coupled with Congress's annual skirmish to end normal tariff status with China, greatly undermines our leverage issues and diverts our focus.

For example, because of the Jackson-Vanik law, we are forced to tell China that, while we want them to liberalize their economy, protect intellectual property rights, become responsible members of the World Trade Organization, we will not apply any of the terms of that agreement to them even if they do all that we ask.

Mr. Chairman, should we sit back and wait for leadership from the President of the United States? No, I don't think so. We should do what inevitably is in our interest and extend MFN for China.

The U.S. Congress should eliminate this vestige of the cold war, role up our sleeves, and design a framework to resolve the difficult issues that lie between our two countries.

While this Member strongly doubts that we can accomplish this arduous task in the little time we have between the deadline for President Clinton's decision on June 3—we would think this frustrated both Republican and Democratic Administrations—we should reflect on how it has undermined our credibility and wasted precious leverage to stamp out proliferation, promote human rights, and bring China into the world trade community.

Mr. Chairman, this Member regrets that we will not have an opportunity to rest this difficult issue before the debate this year, but I am of the view we ought to offer an alternative on a global basis and move away from this very unwieldy tool to deal with human rights issues.

I thank my colleagues for listening to my statement.

Mr. ROTH. Thank you very much, Mr. Bereuter, not only for your co-chairmanship of this hearing today but also because of your measured statement, and your comments are well taken.

Our next person to ask questions would be Mr. Berman, known, too, on this committee to ask questions.

If you have some questions, Mr. Berman, please proceed.

Mr. BERMAN. I am not forced to ask these questions.

Thank you, Mr. Chairman, and I thought the gentleman from Nebraska's statement was very interesting. It was a little damning with faint praise in there, but that is all right.

Play this out a little bit, because I am really torn. I hear your arguments, and I think a number of them are very good for why it is wrong to do MFN and to link that to our unhappiness.

And I heard Congresswoman Pelosi earlier. Although her focus in that presentation was really on trade issues and it talked generally about the balance of trade and how unfavorable it was to us, I am not sure that is a basis for discriminating in tariffs as opposed to pursuing specific unfair trading practices; and the Administration, is it doing that now in the intellectual property area, which is the other issue she raised through dealing with the theft of intellectual property.

Although I heard somebody yesterday refer to this as, I think the term was—the wrong country, but a Kabuki dance, where they will violate proposed sanctions, something will happen, sanctions will be dropped, and nothing will have happened. That is the scenario of the last go around.

Maybe it is not fair to say nothing happened, but there sure are a number of different facets to the agreement. Not just piracy but the market access provisions have been violated.

I would like you to sort of play out that a little bit and where that is going to go.

The other issue she mentioned, she talked a lot about the problems of transfer which came from codevelopment, but that is not—that is American companies deciding that it is in their interest—in other words, that isn't about China's practices.

If we want to do something about what we think is a loss of technology through those kinds of agreements, we should do them on a nondiscriminatory basis, my guess is, and they should be vis-a-vis American companies. I am not sure it makes sense, but I am not sure that is kind of a specific kind of attack.

The problem is in these other areas, and it gets to a deeper question. This administration and the previous administration, especially after the end of the cold war, have placed economic, commercial, and business interests as the top priority of foreign policy, not the only priority, but it seems like at times it is referred to as the top priority.

I thought it was initially a good idea, because I thought it would explain to the American people the importance of international engagement and continuing with foreign assistance programs and our other kinds of international involvements.

But now I am starting to wonder, the extent to which the important but perhaps not paramount business interests of specific companies start driving our foreign policy to—and in a sense we have flipped this around a little bit, and this is to the detriment of some very fundamental principles and priorities and geopolitical interests that we have. We are forced to ignore other things because we fear they will jeopardize our business interests.

I guess I would like to hear you both respond to that concern.

Mr. TARNOFF. Mr. Berman, let me answer especially the latter part of your question, and Under Secretary Eizenstat will deal with the trade issues.

While it is certainly the case that this administration has ranked the defense of American business and commercial business right up there at the top of our international agenda, we have never intended—the President and the Secretary of State have been quite explicit about this—to make our business, and commercial business, paramount.

I think time and time again, including in China, including recently in China, we have demonstrated, let's say, in the area of nonproliferation, the Secretary of State was prepared to recommend sanctions under the existing legislation, which we believe is well funded for this kind of initiative, if we do not obtain satisfaction from the Chinese on major nonproliferation, the issue of importance to us.

At the same time, also with regard to China, there are existing sanctions which the Administration has not waived except occasionally, and therefore I would put in the case of China several interests—nonproliferation, trade, human rights—in a cluster of major issues that we raise with the Chinese.

One of the most impressive things about our relationship with China, and often a frustrating one, is the breadth of our agenda—environment, population, immigration, and a whole range of issues—and we have tried not to prioritize in a way that would give the impression either to the Chinese or to the American people that we would put our business interests above these other considerations.

Mr. EIZENSTAT. If I may respond to the two questions you raised with respect to trade, first with respect to the intellectual property and your concern about the Kabuki dance, there are four imme-

diate things that China has been told repeatedly, up to the very deadline, that it needed to do. There are things that they, themselves, have committed to do.

The first is to act against the infringing factories that are pirating our intellectual property, many of which are in the south. In Shanghai, where they have made an effort, they have been able to close some down. If they would have the political will to do it, they could do it here. It is well within their competence to do so.

Second, to put special emphasis on the border system, they are in fact dealing with much of the retail pirating rip-offs that are occurring in terms of taking people's suitcases, for example, and checking them, but they are not checking any cargo, any ships, any planes themselves, and that is where the export of this pirating activity is occurring.

And last, but certainly not least, is the importance of market access for our audiovisual and computer software companies. These are things they have to do. They have indicated, as you noted, a counter-retaliation list, but in fact China has much more to lose than we do.

We have very carefully targeted our retaliation list so that it does maximum damage to China's export-oriented textile and computer electronics industries and the minimum damage to U.S. consumers by choosing products for which there are alternative sources, and in the textile area, for example, it represents less than 1 percent of the over \$200 billion in textile trade that we have. So China would be the biggest loser, and it is the one, after all, that has the surplus with us, but not vice versa.

Mr. BERMAN. That is also an MFN argument.

Mr. EIZENSTAT. We have trade deficits with many countries, and we have never tied that, and we shouldn't. Rather, the trade deficit is a matter of concern, and we have expressed to China and made it clear that this large imbalance and growing imbalance is of a magnitude that cannot be sustained over time.

The way to deal with it is the way we think we are now dealing with it: First, to take concrete steps to remove their multiple and overlapping business barriers to our trade and investment; that is, more market access; second, as we just announced yesterday with intellectual property, to enforce strictly the agreements that we reach; third, more trade promotion.

The Department of Commerce alone will have 30 trade events in the next 14 months oriented toward market access and more exports to China, and we will use our U.S.-China Joint Trade Commission to deal with these issues.

It is also important, Congressman, to look at the pattern of the deficit. For example, it is focused on four large sectors: Footwear, toys and games, household goods, and apparel. Many of these represent low-end consumer items which compete more with other Asian imports than they do with us in the Nation.

At least some part, certainly not all, of the deficit is due to a transplant of labor-intensive manufacturing from places like Taiwan and Hong Kong to China. That has led to a commensurate reduction in our trade deficit with those countries and, as a consequence, an increase in our trade deficit with China.



None of this is to excuse the problem, but it is to recognize the nature of it.

Mr. ROTH. Thank you very much, and thank you for your good question.

I am going to ask Mr. Rohrabacher if he has any questions.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

First of all, my friend and colleague, Mr. Bereuter, I tend to think it might be in the best interest of the United States not to just wink and have the same type of trading relationship with Nigeria now that it has become the vicious dictatorship and we have these exclusions and such.

It may not be in our best interest to have the same trading relationship in Syria, this monstrous regime that is specifically playing to the cause of peace in the Middle East.

Perhaps it would be better not to have free trade with these vicious dictatorships and establish the principle that we believe in free trade between free people and that certainty you can't draw the line—it is not a solid line, but certainly we know the difference between a Nazi Germany and Great Britain or Denmark before World War II.

So perhaps we can look at some of our fundamentals. And this idea that we are just going to not make any decisions in our differentiations between free societies and totalitarian control societies, perhaps that is not the right way to go.

As far as today, why are we permitting the imports from China by companies that are owned by the Chinese military and Chinese police, knowing that their profit from those imports will do nothing but bolster China's ability to conduct an aggressive foreign policy and build their military strength?

Mr. TARNOFF. Congressman, let me try to give you a response to part of that, and maybe Under Secretary Eizenstat might like to add something as well.

First of all, we have never around the world tried to identify the ownership of companies as a reason for restricting activities. And let me tell you why we have not done that and why we do not favor doing it in China.

First of all, it is enormously difficult to determine and to enforce. We have some information with regard to the ownership, but especially in an economy as large as China's economy that is becoming increasingly—

Mr. ROHRABACHER. Yes, we do know, and we do know this in China. In fact, some of the companies that are engaged in pirating our CD's and other materials owned by the Chinese military, where we do know that, why don't we act?

You are saying it is difficult to determine which companies. Well, we do know in this situation, yet we permit them to import goods and make their profit anyway.

Mr. TARNOFF. Just on that point, Congressman, so I understand you, you are not suggesting we exempt those private companies in China, those that are pirating our goods?

Mr. ROHRABACHER. Of course not, but when they threaten the United States of America, it makes it a little worse. Perhaps we should set the priority and take the ones who are using the Taiwan Straits and cut them off first. That makes a little sense, sure.

Mr. TARNOFF. I think we approach the issue somewhat differently, and that is where we believe we can have an impact on China with regard to those issues, with regard to proliferation with regard to Taiwan, and we think we have made progress, including in recent weeks on both of those issues, by engaging with the government in making clear what our requirements are.

If we were——

Mr. ROHRABACHER. Has the policy of strategic ambiguity changed? Is that what you are telling us?

Mr. TARNOFF. Are you talking with respect to Taiwan?

Mr. ROHRABACHER. No; we are talking with respect to China in general. It seems to me we have been ambiguous with not just to one but a large number of issues.

I wish you luck in these sessions. I can see that we are ambiguous to the Chinese, whether or not we mean what we say.

Mr. TARNOFF. In 1993 we imposed sanctions on China for the transfer of technology to Pakistan. It was only after agreement was reached with the Chinese Government, about 15 months later with respect to their agreement not to export ground-to-ground missiles under the MTCR regime, we lifted the sanctions. Here was an example under this administration for the use of factors, a selected purpose that was lifted when the Chinese accepted our position.

Mr. ROHRABACHER. How much did the trade deficit with China go up during that time when we had these incredible sanctions against them?

Mr. TARNOFF. Again, I don't have the figures available, but the purpose of sanctions was exactly what the law intended, and that is to allow the Administration to apply it in a case where our interests were at stake, and the proof was irrefutable with respect to Chinese violations.

Mr. ROHRABACHER. I thought the Chinese had been accused of selling ring magnets to Pakistan and we decided not to have sanctions against that action.

Mr. TARNOFF. The determination made in recent days was to bring a halt to not only the transfer of ring magnets to unsafeguarded facilities but to get a Chinese commitment not to transfer any technology to any unsafeguarded nuclear facilities around the world, and that is what happened last week.

Mr. ROHRABACHER. One finally, Mr. Chairman, and thank you for indulging me.

Let me just say, I believe our China policy has been a failure, a dramatic failure, and I don't think there is anybody in this room who believes that our country is more secure or more prosperous and that the situation in the world is better because of what we have been doing with China in these last 5 years.

The fact is that the Chinese who control mainland China, those who were in the regime, have committed violation after violation after violation, and this is the first time that I see it that we have really been willing to act in terms of these trade sanctions. I hope they work. I wish you luck.

Thank you for at least making this stand, and I believe until we are willing to draw the line in the sand and say this is what we really believe, this is what we stand for—Harry Wu goes over

there, and they are able to detect Harry Wu, but they can't detect what companies are stealing millions of dollars worth of CD's.

One wonders if Harry went over there and set up a CD factory how long it would take them to find Harry Wu then and how long to find the CD factory.

Thank you very much, Mr. Chairman. Good luck. I appreciate it.

Mr. ROTH. Thank you, Mr. Rohrabacher.

I know you feel very deeply about these issues. That is why we appreciate you on this committee.

Mr. Hamilton.

Mr. HAMILTON. I want to thank you and Chairman Bereuter for having these hearings. They are very, very timely, and we appreciate your doing that. Likewise, of course, we appreciate our two witnesses and those that will follow.

I guess the core question we are all wrestling with is how you deal with China. It is a very tough relationship to manage. It does seem to me that those who argue that we should revoke MFN status do so on the basis of an assumption.

The assumption is, if China is denied access to our markets, China's need for the market will force China to do a lot of things: Improve its human rights record, behave themselves on nonproliferation, cease bullying Taiwan, and a lot of good things will flow if we deny MFN to China.

So I would like you to focus, if you would, on the question of what really happens if we deny MFN to China. How is that going to affect our nonproliferation interests? How is it going to affect our economic interests? How is it going to protect our property right interest? How is it going to protect our interest in the security of Taiwan? What is it going to do to our budget?

If we move from a policy of engagement to a policy of containment and confrontation, we are all concerned about budgetary matters around here—if you shift the policy on China, what does that mean in terms of defense expenditures?

Play out for me, if you would, what happens if we deny MFN to China?

Mr. TARNOFF. Mr. Hamilton, Under Secretary Eizenstat and I would like to both respond briefly to your question because there are both political security and also economic dimensions to it.

On the political and security side, we think denial of MFN would have a very serious effect on our ability to engage with China productively, including on those issues where we are frustrated by the progress and where we continue to denounce Chinese actions—human rights, for example.

We think that China is a country in a period of evolution and transition. There are some hopeful signs, not as many as we would like, but even in the area of the law, the Chinese legal system is beginning in small ways to open up. The accused have more rights than they did in the past; commercial ventures have more protection than they did in the past, not substantial by our standards but still moving in the right direction.

Much of this evolution in China on the good side is due to China's growing integration in the world. As I said in my prepared remarks, a period of greatest repression in China during recent times has come during a moment of international isolation, and therefore,

whether it be even on issues of influencing the Chinese military, the kinds of cooperation that we have had over the past 2 or 3 years, basically extending to the Chinese military an opportunity to understand our practices and our way of having civilian control, and transparency in the military and its budget, while not yet producing significant reforms or results in China, has still in an unprecedented way opened up that very important element of Chinese society.

And I could go on. But certainly on all the political issues.

Mr. HAMILTON. If you deny MFN to China, in your judgment, our interest in nonproliferation, decent human rights, Taiwan, and all the rest, we will make more difficult the achievement of our interests there than if we continue MFN?

Mr. TARNOFF. That is right, sir. Our ability to have an effect on Chinese actions in all of these areas would be very substantially reduced.

Mr. EIZENSTAT. I would use the balance of the time to talk about economic impacts. Before going into that, let me briefly mention with regard to Congressman Rohrabacher's last question that we have been able to identify the locations of these plants that are turning out pirated CD-ROM's and records and cassettes. We know where those 30 plants are. We have identified those plants for them, and it is because of their refusal to close them that we have imposed these sanctions.

Now with respect to the quantification on the economic side, first of all, denial of MFN would punish U.S. companies and put at risk around 170,000 U.S. jobs which directly or indirectly depend on U.S. exports to China. And this is a wide range of people, from farmers to computer manufacturing employees.

Second, it would impinge on trade not just with respect to China but with respect to the balance of Asia, because many companies are using their facilities in China as a base staging area for re-export to other parts of Asia.

Third, the World Bank has estimated that revocation of MFN would cut China's 1995 exports of about \$45 billion to the United States by 96 percent, or nearly one-third of its total exports to the world. The same World Bank analysis suggests that China's likely retaliation would affect our \$12 billion in direct exports along with a large part of our \$14 billion in exports to Hong Kong. Hong Kong would be caught right in the middle of the consequences of this, and these consequences would be staggering.

Fourth, we believe that revocation would also undermine our efforts to improve market access to the Chinese market for U.S. firms, and certainly this is a difficult, complex issue. But they have made progress under their 1992 MOU in reducing tariff and non-tariff barriers, and revoking MFN would not give us leverage to increase that market access.

The last point I would like to make is, it would hurt the Chinese workers as well who benefit from the higher wage, from the good conduct that our companies based there provide. It would only hurt those who are least able to defend themselves, the employees in China, and these are employees who, because of their employment by U.S. firms, have access to computers, to e-mails, to faxes, to Western ideas, which they otherwise would not have.

Mr. HAMILTON. At some point, I would like you to give us an analysis of what you think would be the impact on the U.S. budget if you move to a mode of confrontation with China.

Mr. ROTH. Maybe you can just give us that answer in writing so we can share it with the Committee.

Mr. ROTH. Thank you, Mr. Hamilton.

Chairman Gilman, do you have any questions for our witnesses?

Mr. GILMAN. Thank you, Mr. Chairman. I will try to be brief. I am sorry we were called out to some other meetings along the way here.

I suppose I ought to be asking this of Mr. Tarnoff—in your statement, you said China has made a public commitment not to assist unsafeguarded nuclear facilities, including no future ring magnet shipments.

I have a complete text of the statement, and I don't see any referral to future shipments. China will not provide this as a response by the Chinese Foreign Ministry spokesman on May 11. The nuclear cooperation with China and other countries is concerned exclusively with—the full purpose of the ministry spokesman of China will not provide assistance to unsafeguarded nuclear facilities, including the strengthening of the safeguards and export control measures but I don't see any statement about the prohibition about future shipments.

Are we just implying from this statement that they are going to be good boys and not ship anymore?

Mr. TARNOFF. No, Mr. Chairman, we are not.

It is true, there is not a specific reference in the Chinese statement to ring magnets, although we interpret this as including the technology that would not be sent to any unsafeguarded facility.

But, much more importantly, throughout the conversations that were held, including those conducted personally by Secretary Christopher and the Foreign Minister and John Shee Shen in The Hague on April 15, through exchange of correspondence and detailed conversations about this, and also the reference in our statement about ring magnets, we have absolutely binding assurances from the Chinese, which we consider a commitment on their part, not to export ring magnets or any other technologies to unsafeguarded facilities.

Mr. GILMAN. Is there some correspondence that would lead you to believe that this would occur? Is there some correspondence between the Chinese Government and our Government?

Mr. TARNOFF. The negotiating government detailed and recorded between U.S. and Chinese officials.

Mr. GILMAN. No written agreement, I take it?

Mr. TARNOFF. The only written statements are the ones that are on the record, although there have been exchanges of correspondence in democratic channels between both governments.

Mr. GILMAN. And any specific document that would set forth no future shipments?

Mr. TARNOFF. Again, it is very much part of the negotiating record.

I think, Mr. Chairman, if you would like an opportunity to be briefed on the diplomatic exchanges that took place—

Mr. GILMAN. What I would like, Mr. Chairman, is that any specific memorandum or documents that would lead us to have the perception that there will be no future shipments of ring magnets would be extremely helpful to the Committee, and I would like to ask that be made part of our record, Mr. Chairman.

Mr. ROTH. With no objection.

Mr. TARNOFF. Mr. Chairman, we would provide that under the appropriate conditions and circumstances.

Mr. GILMAN. I am concerned too. Over the years we have debated at length the MFN. One Administration after another has supported MFN. We wanted to do business with China. Many of us would like to keep the door open to business, yet our deficit keeps growing and growing. So how has the MFN assisted our Nation, assisted our economy?

Ms. Pelosi mentioned that the trade deficit with China grew from \$10 million in 1985 to \$34 billion in 1995—in 1985 China was our 70th largest deficit trading partner. It is now our second largest deficit trading partner, second only to Japan.

So how has MFN assisted our Nation's trade policies?

Mr. EISENSTAT. If I may answer that, Mr. Chairman, I think it has done so by giving us an average annual increase in our exports of 20 percent to China. It is true that their exports to us are growing faster, but ours are growing very, very rapidly.

Mr. GILMAN. Are we concerned, Mr. Eisenstat, with regard to the deficit, the bottom line?

Mr. EISENSTAT. We are concerned, and we have expressed that concern to the Chinese, and we have indicated that large and growing deficits of this magnitude can't be sustained. But the way to reduce that deficit is through greater market access, greater penetration, greater enforcement of our trade agreements.

Mr. GILMAN. Is that happening?

Mr. EISENSTAT. It is happening, and yesterday's announcement with respect to intellectual property is a clear indication that we mean business and we will impose sanctions when they violate their own commitments.

There are a whole series of things they have to do and in the subsidy area, tariff and nontariff area, to beat members of WTO. It is not a club with an open door. If they will take those steps, that will further help our exports.

One last point. It would be ill advised to try to give a timeframe on this, but there really is a genuine reason to believe that over a reasonable period of time the deficits will recede.

The reason I say that is that production costs in China are clearly going up. Second, they are beginning to reduce their export incentives. And the combination of this will be, hopefully, as they grow and have a greater appetite for our higher value products, we will begin to see that deficit reduce.

Mr. GILMAN. They now have a voracious appetite for our products, but, in a like manner, they don't seem to do our businessmen justice when we want to open a door to trade in China. That is what a number of us are concerned about.

Year after year, one Administration after another makes an appeal to us saying, "If you just give them MFN and we will try to make our deficit smaller, we will try to open the door for more

trade," and yet the figures don't justify what we are being asked to do.

Mr. EIZENSTAT. Just to put this on a bipartisan basis, going back to the 1992 memorandum of understanding in the Bush Administration that required the elimination of all nontariff measures from over 900 product categories, China has eliminated all quotas and licenses, and they have made clear improvements; they have made reductions in nontariff barriers as well.

Clearly, they have much more to do, but by remaining engaged, as Under Secretary Tarnoff has emphasized, by having a policy of engagement, by keeping the MFN going, it gives us the capacity to work on these issues, to keep pressing them.

Are we satisfied? No. But if we turned our backs on them, we would have no opportunity to influence their—

Mr. GILMAN. I guess I am a bit concerned about the fact that, on one hand, we are engaging in a trade war—it is apparently what the President has suggested in the last few days—on imposing severe tariffs on a number of products, and on the other hand we say, well, we have got to give them MFN.

Isn't there a dichotomy here? Isn't there some problem with this kind of a policy?

Mr. EIZENSTAT. No, sir. Quite the contrary, we are not engaging in a trade war with them, we are acting forcefully in a specific sector where they violated their commitments.

As I mentioned in another context with the European Union, when they kept our beef out, we have sued them in the WTO, as we have done with Japan on autos. There are a whole set of countries with which we have disagreements, and when they violate it, as China did, we act. That is not a trade war. Nobody is making this into a trade war. It is acting in defense of an agreement that they have soundly reached and broken.

MFN, on the other hand, is the basic foundation upon which our whole relationship operates, our whole capacity to get them to reduce, as they are now doing, their tariff and nontariff barriers.

Mr. ROTH. The gentleman's time has expired, but because he is chairman, I am afraid to use the gavel. Otherwise, I would have cut him out a long time ago.

I would yield briefly.

Mr. BERMAN. If we revoked MFN and thereby China lost access to our markets for the four dominant categories—footwear, textiles and apparel, toys—and I forget what the fourth one was.

Mr. EIZENSTAT. Household goods.

Mr. BERMAN. The notion that our balance of trade would get rectified vis-a-vis the rest of the world I think is illusory. I guess we don't recapture these industries, we just see other countries in Southeast Asia and other countries in the world taking over China's share of our market.

Mr. EIZENSTAT. That is precisely correct. And, again, many of these products are produced by Taiwanese, Hong Kong, Thai, and other Asian companies who are located in China. They simply would be producing them for their own country, creating a deficit, if they weren't in China.

Mr. GILMAN. Mr. Chairman, I thank you for allowing me to exceed the time.

I just hope that our policymakers will come together and come with a more comprehensive and a more concise policy when we deal with China, and to date I think it has been a failure and that it has not been a successful policy.

Thank you, Mr. Chairman.

Mr. ROTH. Chairman Gilman, thank you for your very good and insightful questions. I realize you feel very strongly about these issues and Members of this committee do, and I know your questions are so heartfelt.

Let me say I have been asked about a recess, a lunch break, and so on. I don't think we can do that, although a lot of Members have asked for that, Members who are not here. I think we have to continue because our corporate Members who are here are on tight schedules and we have to give them a chance.

I know there is a California delegation. I am sorry about that. I know there are many in the California delegation who would like to be here and ask some of these questions. I am not referring to Chairman Gilman now because he is my dear friend.

The reason we have these lights here means you speak. Yellow means slow down, and red means that is it.

Mr. Sanford has joined us, and Mr. Manzullo. Mr. Manzullo, do you have a question? You do.

Mr. MANZULLO. Yes.

Mr. ROTH. Read your question.

Mr. MANZULLO. I have a question, and that is, one of the reasons MFN is in big trouble is because the Clinton Administration has imposed sanctions on American companies that are trying to get Exim financing for investments in China.

It is a disgrace, an absolute total disgrace, that the Administration has pulled Exim financing from American companies, including Caterpillar, which wishes to sell \$200 million worth of machinery to be used on the Three Gorges Project.

You talked in your opening statement, Mr. Ambassador, very eloquently that China is expected to purchase lots of distribution facilities. The Three Gorges Project is the largest public works project that has ever undertaken the equipment. In terms of coal, it is a train 5,000 miles long burning coal. You can imagine what that would do to the environment.

The policy of the Clinton Administration toward pulling Exim financing and politicizing an organization that is used to help enhance American exports overseas is so totally inconsistent that for the Administration to come here today and to ask Members of Congress for MFN so as to enhance exports to China does not make sense.

There is an article that appears in the Wall Street Journal, April 25th. China has put out \$4 billion worth of contracts—that is 80,000 jobs—to the countries of Japan, Russia, Switzerland, Norway, Germany, Canada, and has refused to allow Americans to bid on the Three Gorges Project out of retaliation over the Clinton Administration bad-mouthing the Chinese with regard to the Three Gorges Project.

It is one of the most glaring inconsistencies that I have ever seen, is to see you—hear you, Mr. Ambassador, you very sincerely—and did an excellent job of talking about enhancing trade,



and yet just like this \$200 million of contracts to Caterpillar, hydroelectric systems—and one of the gentlemen that was aboard the Commerce Secretary's aircraft who sold power generators testified before my Small Business Subcommittee on Trade and stated he would rather have American technology involved in the sale of generators on the Three Gorges Project.

And what do we get from the Administration? Nothing but waffling.

Senator Simon and I and other Members met with the Administration and said very specifically Three Gorges Project will be built with or without American participation. So instead of having those nice yellow Caterpillars over there, instead of having billions of dollars in contracts in the United States, he will be driving Kimatuzus. This does not make sense.

The message I want you to take to our President is to be consistent. If he is really concerned about the sale of American products to China, then stop the nonsense with pulling the rug from Exim financing.

If you have an opinion on that, I would review it, but, Mr. Secretary, I am not giving you heck because you have not made that decision.

Mr. EIZENSTAT. First of all, I appreciate your comments and the forcefulness with which they are made. Let me, if I may, give the current situation with respect to the Three Gorges Project.

The National Security Council was asked by Eximbank to review this project because there were so many agencies interested and so many issues involved. The National Security Council did make a determination that, in its opinion, the U.S. Government should not actively promote interest in the project, although U.S. companies are free to participate.

Mr. MANZULLO. I understand that.

Let me recapture my time. On the Caterpillars, this is personal property. It is fungible. It goes from one project to another.

Mr. EIZENSTAT. I would only say that that is a recommendation. The Eximbank is an independent agency. It is currently considering applications for financing. It will make its own independent judgment as to whether or not the construction of this—

Mr. MANZULLO. Mr. Secretary, that has been going on since November. This is now May. There are \$4 billion in contracts out there. How long is it going to take for the Administration to back off and get reasonable about trade with China?

Mr. EIZENSTAT. Again, Eximbank, as an agency, has to go through this whole process, and it is doing this as expeditiously as it can.

Mr. MANZULLO. Can you advise the President to get people moving on it because there are offers out there for \$4 billion worth of contracts?

Mr. EIZENSTAT. I do want to say, NSC has concerns, and on the fact that it would require the forced resettlement of some 1 million civilians.

Mr. MANZULLO. I understand that. And on the environment, you know, the giant panda is nowhere near the area affected; it is located somewhere else. The Siberian crane would not be affected. I can understand this.

This project will be built, and I would rather have American technology and American engineers and American environmentalists over there trying to do whatever they can to protect Americans.

To say that they are concerned about environmentalism in a project overseas and to see the project being built without our input is hypocritical, that the message the Administration needs—it should be consistent. If we are for trade with China, then we should trade with them and not allow the Eximbank to get involved.

Besides that, the TDA at OPEC are not guaranteeing loans to China. We have been freely doing trade with China, and you come here today and you are asking the American Congress to please grant MFN status for China. It does not make sense.

Mr. EIZENSTAT. I will make sure that your strong views on Three Gorges are communicated by me personally to Eximbank.

Mr. BEREUTER. Mr. Chairman, would you yield for a second?

Mr. ROTH. I would be happy to.

Mr. BEREUTER. Mr. Ambassador, I recused myself from this decision since his wife is a member of the Vice President's staff and very active on these issues.

Mr. ROTH. Thank you, Mr. Manzullo and Mr. Bereuter, for your questions and comments.

Any other questions or comments from the Committee?

If not, thank you very much, gentlemen, for being with us this morning.

Mr. ROTH. Next we move to three of America's top corporate leaders. Each of them has a deep interest in China and a great deal of experience in that market.

We greatly appreciate your traveling to Washington to help the Congress better understand how to deal with them effectively, for our interest here in Congress, as you can tell, is very focused on this issue.

After you have presented your statements, then we will go to questions by the Committee.

Let me say I will introduce the three members as they speak. We want to begin with Hank Greenberg who comes to us. He is doing a great deal of business in China. Hank Greenberg is a true pioneer. He is the chairman and CEO and runs a \$25-billion global corporation in China. AIG is the leading force in the industry.

Mr. Greenberg, we welcome you to this committee. Before you make your presentation, I am going to call on our chairman for a few words.

Mr. GILMAN. Thank you, Chairman Roth.

I want to welcome our CEO's, Mr. Kiam and Mr. Jones, and particularly Mr. Greenberg, a colleague of mine at law school who made good while our poor public officials are still struggling.

We welcome all of you. We thank you for your patience, and we regret the delay in getting to your testimony.

Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Chairman Gilman. And I now will proceed with Mr. Greenberg for your testimony.

## STATEMENT OF HANK GREENBERG, CHAIRMAN AND CEO, AMERICAN INTERNATIONAL GROUP

Mr. GREENBERG. Thank you, both chairmen, and I am not sure, Mr. Gilman, which one of us succeeded, but I appreciate the opportunity to speak before you.

I have submitted a written statement which is much longer than my current remarks.

China is emerging as a major world power. U.S. foreign policy, especially in Asia, is bound to be adversely impacted without a constructive and growing relationship with China. In fact, I don't know how we have an Asia policy at all. One only has to look at a map to see that if we don't have a constructive relationship with China, our foreign policy in that region will gravely suffer.

The United States and China have many common national interests. First and foremost is stability in Asia, which is something that would be very difficult to maintain in the years ahead without a constructive relationship with China.

The potential for growing economic relations is clear. We currently export, as you have heard, about \$12 billion a year to China, and that accounts for at least 200,000 direct jobs. There are many indirect jobs at port facilities and places like that.

Our economies are complementary. They need more sophisticated technical equipment; we import their exports; we complement each other. Korea has been very helpful on the Korean peninsula. We would have had more difficulties in that part of the world without their cooperation.

MFN is vital to the interests of both countries. It is also, as you have heard, of major importance to Hong Kong and Taiwan. Hong Kong would wither without MFN renewed to China. It would simply wither.

I have been visiting China since 1975 and going, on average, about twice a year. The change over that period of time has been nothing short of staggering. People are living better today than any time during their 5,000-year history.

Feeding, clothing, and sheltering 1.2 billion people is a staggering job. Stability is essential to accomplish that. Those who have visited China over the years and have seen these changes emerge know how the people have benefited.

But over the last several years our relationships have been up and down. We appear to the Chinese as always threatening them with sanctions, which is hardly a conducive way of building a relationship.

We won't always agree on every issue. We don't with any other countries. But it will be a mistake to neglect the broad national interest matters in favor of other individual issues—most should be resolved over time quietly and not publicly.

Negotiating with China publicly is the wrong approach. It will never succeed. There are many issues, however, that we do agree on, and we should build on those patiently and resolve our differences on those that we have differences on.

I would like to say a word about the trade deficit that has been discussed this morning. To begin with, China's worldwide trade surplus runs from negative to plus \$7 billion. It doesn't have a major surplus with the entire world; they have a surplus with the

United States. But the reported figures that have been reported, there is great controversy among both Americans and Chinese as to the true numbers, because many exports go through Hong Kong and Taiwan, where there are values added to the products, then re-exported, but the Chinese exporters get a small part of that. It is believed that the surplus is probably half of the number being reported.

And while we talk about surplus, Japan has over \$100 billion surplus with the world and has run a surplus with the United States in the tens of billions of dollars for years. We have hardly threatened to remove MFN for that reason.

So it seems to me that foreign policy should not be held hostage to domestic policy. That would be a terrible mistake. China is emerging as a global power. Anything we do is not going to stop that; that is going to take place. We either are going to have a constructive relationship or we are not. I say it is in our best interest to have one.

Six Presidents of the United States have had a one-China policy, on both sides of the aisle, not one Taiwan, not one China, not two Chinas, but one China. It seems to me that it is in our national interest to continue that policy, and to renew MFN, it shouldn't even be a debate.

It was said earlier today by one of your colleagues we have MFN with Saudi Arabia; we have it with Syria. One is alleged to be a terrorist country. I don't understand this annual war dance we do over MFN. We ought to dispose of that and get on with doing what we should be doing and renew MFN and keep foreign policy matters where they belong, in the field of foreign policy.

Thank you very much.

Mr. ROTH. Thank you very much, Mr. Greenberg.

Before we go to questions, I think we will ask Mr. Jones and Mr. Kiam for testimony, and then we will go to questions.

We are next going to hear from Mr. Dale Jones, vice chairman of the Halliburton Company. The Halliburton is a civil engineering company. It operates in 100 countries around the globe, and it has extensive involvement in China. Mr. Jones is also representing the National Foreign Trade Council, an association of 500 top U.S. companies involved in global trading.

Mr. Jones, we appreciate you coming here today. Like the other members of this panel, you have come at a great sacrifice. I know your time is important. We would like to hear your testimony. And the testimony that you have submitted, we are going to make sure, as with the other two panelists, that all 435 Members of Congress will get the testimony.

Please proceed.

#### **STATEMENT OF DALE P. JONES, HALLIBURTON COMPANY, ON BEHALF OF THE NATIONAL FOREIGN TRADE COUNCIL**

Mr. JONES. Thank you, Mr. Chairman.

I will try to summarize my testimony in about 5 minutes here. I am pleased to testify today on behalf of the National Foreign Trade Council. It is an association of more than 500 U.S. companies engaged in international trade and investment.

We talk about the vitally important topic of the impact of MFN status on U.S.-China economic relations. The National Foreign Trade Council is strongly supportive of the continuation of unconditional MFN status for China. Revoking or conditioning MFN would eliminate the leverage that the United States does have on China at a very high cost to U.S. employers and workers.

As a business community, we would like to see a more stable and predictable relationship with China that encourages greater individual liberty.

There are four aspects of our relations with China that I would urge your subcommittees to take under serious consideration. The first is, the annual debate in the United States about MFN for China has become increasingly unproductive and ineffective.

For 7 years the Congress has conducted an annual debate about China's MFN status under the Jackson-Vanik amendment to the Trade Act of 1974. The result has been that the entire U.S.-China relationship has been challenged each year on the narrow basis of bilateral trade, and the normal commercial relationship has been held hostage to a wide variety of noncommercial concerns.

Each year the business community has stressed that MFN is the normal tariff standard for conducting trade and in no sense a failure. The business is a building block of our global trading system, and it is critical for keeping markets open for the United States, the world's largest trader.

To revoke MFN for China, one of the world's great emerging powers, would be commensurate, the equivalent of suspending diplomatic relations. We cannot build a lasting commercial relationship based on Smoot-Hawley tariffs.

We are convinced there is far more to be gained through a policy of long-term MFN status. With this, a structure of enforceable bilateral and multilateral agreements, the National Foreign Trade Council believes we should make clear to the Chinese leadership that the United States is willing to grant permanent MFN to China and to stop using what is essentially a cold war trade law.

Second, the United States cannot pursue its vital economic and other interests in the Asia-Pacific region without improving commercial relations with China.

It has become a part of the conventional wisdom that Asia presents the greatest opportunity for expansion of U.S. exports in the next decade and beyond, and U.S. trade with China is now more than double our trade with Europe and is growing rapidly, and China leads all other countries in its rate of economic growth.

It is, in fact, not possible to disentangle U.S. commerce with China from that of the region. If U.S. companies were locked out of the U.S. market as a result of retaliation, they would also be excluded from some major business opportunities in other Asian countries whose economies are increasingly entwined with China's market.

So it is vital for the U.S. economy to be able to participate fully in the growth of the Asia-Pacific market. It is also a key factor in achieving other U.S. objectives in the region, such as encouraging and sustaining free market democracy and maintaining strategic stability in the region.

It is worth noting that even the most prodemocratic forces in Hong Kong have long supported continued MFN because they fully realize the destabilizing impact its elimination would have on Hong Kong.

Third, the economic stakes for the United States and China itself are enormous. Revocation of MFN would certainly lead to Chinese retaliation against the \$12 billion in annual U.S. exports of goods and services to China. We would be under no illusion that China's leadership would not be willing or able to subordinate China's increasing prosperity and economic growth to their perceived need to retaliate strongly against aggressive U.S. action.

It has been mentioned that U.S. exports to China have doubled since 1990 and grew 27 percent last year. So revoking the MFN would cost hundreds of thousands of U.S. jobs which were created directly and indirectly by these exports. And many of these jobs are high-wage, technology-related jobs.

At Halliburton, the Chinese market is strategically important for the long-term growth and competitiveness of the company. We have served the Chinese market for more than a decade.

In addition to the direct benefit we gain from our China business, we are hoping to improve the lives of many of the Chinese people. We have trained over 1,000 senior-level Chinese managers and engineers in U.S. company management practices and technical skills, and we have other ongoing, on-the-job training through our service and joint venture agreements.

We have also sponsored many scholarships for Chinese students to study in the United States and actively engage in cultural exchange programs mainly at the local levels in the communities in which we work. It isn't just our company that is doing this sort of thing; most of the U.S. companies have these types of programs.

Fourth, U.S. business has an important role to play in liberalizing Chinese society and integrating it into the world trading system. Just as commerce does not provide the sole leverage to alter Chinese behavior, the private sector cannot reasonably expect to transform a vast nation with an ancient culture.

The expanding market economy has, however, had a remarkable impact on China. U.S.-Chinese economic ties have played a very important role in that transformation, and these changes in China, we believe, are irreversible.

As a result, there has been a dramatic increase in the standard of living of the Chinese citizens, and access to information has greatly reduced the effectiveness of State control.

The vitality and explosive growth of the Chinese economy are matters of concern to many in the Chinese leadership for these reasons. We should be on the side of the Chinese population which benefits from the steady expansion of personal opportunity and which welcomes the participation of American companies in improving their lot.

President Clinton and the congressional leadership recognize it is in our national interest to continue MFN for China. So we urge the entire Congress to recognize that revoking or conditioning MFN is part of the problem, not part of the solution, in addressing our various concerns with China.

I appreciate the opportunity to testify for the National Foreign Trade Council.

Mr. ROTH. And, Mr. Jones, we appreciate your testimony very much, and we are delighted that you agreed to join us today, and we will have some questions after our next presentation.

Our next witness is Victor Kiam. It is a special pleasure for me to welcome Victor Kiam before this committee. I consider him a good friend, and he is chairman and CEO of Remington Products Company.

Victor Kiam is an internationally recognized corporate leader. Mr. Kiam has a well known and long interest in involvement in China, and he comes here today with a strong felt message for the Congress on what will and what will not work in dealing with China, and I think Congress has to hear that. He is also author of "Live To Win," a great motivational book.

Mr. Kiam, thank you for coming. Please proceed.

#### STATEMENT OF VICTOR KIAM, CHAIRMAN, REMINGTON PRODUCTS COMPANY

Mr. KIAM. Thank you, Mr. Chairman.

I, like Mr. Greenberg, arrived in China in 1975. It was a Third World nation. People earned, on average, \$30 a month wage working in a factory, and managers received less because they were nonproductive and didn't produce goods. It was a reverse society in which communes produced products.

In the particular area I was involved at that time, they delivered these products to a sales organization which was State-controlled. They showed me the warehouses full of product they couldn't sell because the factories produced it but there was no market for it.

In the last 20 years, we have seen an evolution of a people that compares to the American miracle. We have seen a nation that has risen with a minimum of turmoil, with a minimum of killing. How many wars have erupted in Asia compared to the rest of the world?

We have seen a stabilizing force with tremendous difficulties internally because of the size of the population, because of the differential between the urban factory earner and the farmer. When I first got there, Mao was still in control. It was a bleak, stereotype society, all dressing the same, all looking the same, all afraid to be different.

What kind of a society have we got in China today? We have a society of people who are looking forward to the future. We see a society of people who will contribute to the world. Look at the Chinese who have come to the United States. Look at the values of family. Look at the values of education that they have brought to us. Nations who were better off than they were 21 years ago are still trying to evolve from Third World status.

We and China will be the economic powers in the years ahead. If we close our doors and if we do not assist this process, this world will not be the place that it could be.

We live in a time where wars will be fought economically. I think the days of massive military struggles are over. Yes, there will be outbreaks, there are some today, but the world could not stand a global conflict.

So what will be the struggle to improve the livelihood of individuals around the world to build the standard of living of each nation? It will be economic. We should look at our economic policy because that is as important today as our military policy. It will protect us, as our military has done, because it will protect the standard of living of our citizens, and every government remains in power as long as its citizenry is happy.

How would you compare the revolution of the Soviet Union and China, and where do you think these two countries are going to be 20 to 30 years from now? Who will be the economic power? I think it is obvious. We can't afford not to support MFN and not to try to bring China further along.

We have heard from certain people today. I have listened to the things with which we do not agree as to how China is progressing: Human rights, obviously Tiananmen Square, forced labor. I think we have got to sit back and take the long-range view, which the Japanese and Chinese do. These are minor matters really in the history of our relationship with China and in the next 30 years, if you want to look forward to those days.

I heard mention made of the People's Liberation Army. It happened to hit me fairly hard. I have a joint venture with Xinxing, which was brought up today. What is our joint venture trying to do? We are trying to bring American products to China because there is no distribution system in China.

I have tried repeatedly to get my products distributed throughout China, and it is tough. It is tough too because of credit in China. It is very easy to sit back and say this is what we should do, and when you get into the inner workings, you will find, just as you do in your bills and in trying to convince people to change their views, that it isn't quite as simplistic as it looks.

I have been to factories in China controlled by Chinese. They are working. They are happy. They are making clothes; they are making shoes. It is a nonmilitary producer supplying originally the army. But the Chinese Army is shrinking, so who are they supplying right now? They are selling Black Lilly shampoo to the Soviet Union, and they are selling clothes, shoes, whatever they can export.

In exchange, they want to distribute American products in China, and we are working with several U.S. companies to get their products exported because they have a sales force, they have a distribution system, and they have warehouses all throughout China.

Now, there may be an instance that in one place or two places or three places there are some people working who are not working freely. But, by golly, where I have been in their factories, where they make their clothes and they make the products that are sold in China and outside, there is no forced labor.

So when we get to China, it seems to me that we have to look at the last 20 years, we have to look at our policy, which I don't think has been that bad other than this recurring debate as to whether we should continue to have negotiations with China and continue to have a relationship.



So I respectfully submit that we should, as these gentlemen said, stop this dance and let's go forward with our new worldwide trading partner, the People's Republic of China.

Mr. ROTH. Thank you, Mr. Kiam.

I am going to run over and vote. I am going to ask Mr. Bereuter to take the chair.

Mr. BEREUTER [presiding]. Thank you very much for your testimony.

Mr. Rohrabacher.

Mr. ROHRABACHER. Just for the record's sake, I think the hypothesis that a commercial interaction between two peoples leads to liberalization of governmental policy has been proven wrong. And you may have seen a great economic upsurge in China since you arrived, but I will have to say that Tiananmen Square is not something that is meaningless to most Americans. If your son died in Tiananmen Square, you wouldn't say it is meaningless either.

The fact is, there have been throughout our history and throughout the history of the world people who struggle for human rights. The United States has basically been on their side, although we certainly haven't intervened militarily for them, whether it has been World War II where we did intervene militarily against the totalitarian threat and elsewhere. But the struggle for freedom is not inconsequential.

From everything I have heard in this last couple of years, I believe the hypothesis we have been presented by people who are profiting personally from a relationship with China and other dictatorships, I might add, that simply doing business with them is going to make them less totalitarian has not proven correct. It seems to have gone the other way. When you put Tiananmen Square and other things into the factors, it just doesn't seem to be the case.

Let me just ask one question of all of you before I go. Has the Chinese Government approached you or members of your staff and your companies and asked them to testify and asked you or them or members of your companies to testify on behalf of MFN status here in the United States?

Mr. GREENBERG. I will be glad to answer. No one has ever approached me, Congressman, or any member of my staff.

Mr. JONES. I have never been requested by a member of the government to testify.

Mr. KIAM. Nobody knew I was going to testify today other than Chairman Roth.

Mr. ROHRABACHER. I am very happy to hear that, because every time this comes up and obviously people say, well, these guys are just making money, obviously you do believe in what you are saying. And it is not just money. You believe that things are going to get better with more interaction economically between our societies. As I say, I am afraid I just can't buy that anymore.

Mr. GREENBERG. Congressman, I think it is not money in anybody's pocket here. We run corporations and benefit shareholders, and we pay taxes to the U.S. Government, and they in turn benefit the public. So I don't think that there is any personal gain from any of this that anybody gets.

Mr. KIAM. I would say, in my case and in many of our cases, the amount of profits that in my case we would get out of China is probably less than one-half of 1 percent of what we would expect to earn throughout the world. But I believe that is an area that we must pursue because of the future.

Mr. GREENBERG. I would confirm that, too. We make very little profit in China, but we think for the future, for American companies, they must be engaged there.

Mr. ROHRABACHER. I will end my period by saying that Taiwan buys twice as much from the United States as the mainland of China. We have incredible growing and vibrant economies throughout the region. For us to basically focus on China and be blinded by this dream of a future China market which has been part of the American psyche, I think, for 200 years since the China clipper ships, is not serving our country well.

And I appreciate, gentlemen, where we have an honest disagreement and thank you all very much.

Mr. BEREUTER. Thank you very much, gentlemen, for your testimony.

I missed parts of yours, Mr. Kiam. I had to cast my vote so the chairman could be relieved.

I would like to ask all of you if you care to respond, in your judgment, what is the most effective way for our executive branch to deal with the current leaders in the People's Republic of China?

Mr. GREENBERG. I will be glad to comment.

Mr. Chairman, I think that any negotiation with China—and that has been proven—is best done quietly and privately, especially where there is a disagreement. But we also have to engage China in more personal diplomacy at the very top. We have got to build a relationship, as we do with other countries.

We have not done that very well with China. Our Secretary of State has visited China one time in his entire tour of office, yet it is one of the great countries of the world.

So unless you begin to have a relationship based on personal contact, it is very hard to deal with problems that then emerge. But when they do emerge, private diplomacy will go much further than reading about the differences in the press.

Furthermore, threatening China constantly with sanctions over every disagreement is not going to build a relationship. It builds hostility; it doesn't build anything positive.

Mr. BEREUTER. Would either of the other two gentlemen like to be heard on that?

Mr. JONES. I would like to comment on that, Mr. Chairman.

I believe that we have to recognize that, as Mr. Greenberg said, private diplomacy goes a long way in building relationships. We have to recognize that there are internal political issues involved for the Chinese leaders, just as there are involved for the leaders in this country, and that that cannot be and should not be overlooked or ignored.

Continued interaction, discussions, and quick calling of meetings to discuss violations that are perceived or thought to have occurred, we think, is a way to move forward, but to do it in a proper way without trying to make every issue, regardless of size, to be a headline item for this country.

Mr. ROTH. Mr. Jones, do you think it would be good to have a regularized summit schedule between the President of the United States and the leaders in the People's Republic of China? Are there any advantages that you can see or disadvantages?

Mr. JONES. I think there would be some advantages to that.

As you know, the President of China has on at least one occasion in the past sought to have a meeting with the President of the United States. That could not be brought off, for whatever reason. But I think anything that would encourage regular dialog between leaders at that level would be very helpful.

Mr. BEREUTER. Mr. Kiam, would you like to give me your thoughts about the most effective way to approach the Chinese leaders?

Mr. KIAM. I think the comments of my two cohorts are right on. If you look at our relationship with Britain and the Western world over the years, the close relationship of our leaders with their leaders has certainly ironed out a lot of difficulties before they arose, and if there were unpleasant decisions, they were done in the context to ease the pain, so to speak, on the peoples involved.

I don't think we paid enough attention to China. I think that our State Department has been very busy in other areas which have exploded. But I think we should have a long-range, committed policy and perhaps a standing committee of the People's Republic of China and a standing committee of the State Department to relate on a consistent basis, because our future and the future of my children and grandchildren are going to be tied into the relationships that we have with the People's Republic of China for the next 50 to 100 years.

Mr. BEREUTER. Thank you.

Mr. Greenberg, given our faltering relationship with China, the downward cycle we have been in, what do you think the impact is on our relationship with other countries in the region?

Mr. GREENBERG. There is no question in my mind, if our relationship with China continues to spiral down, there will be no Asian country that would support us. They will side with China. They are not going to jeopardize their relationship with China. They just look at a map and they understand the realities of that.

China radiates tremendous influence throughout the region and continues to grow. So for us to have a relationship that is not constructive but is, as you say, spiraling downward will cool many Asian neighbors with their relationship with the United States.

Mr. BEREUTER. Unfortunately, I see some evidence of that happening already.

Yes, thank you for your testimony. You have been extremely patient.

Mr. Jones, I hope you give our regards, mine in particular, to Dick Cheney, your CEO. I hope he is doing well. I imagine that he is.

Mr. JONES. He is doing well, and I will give him your regards.

Mr. BEREUTER. I would like to call the third panel to the witness table. On our third panel we have two witnesses who will bring perhaps a different perspective, at least in part: Dr. Robert Ross and Mr. Fiedler.

First we will hear from Dr. Ross, who is a China scholar at the East Asian Research Center at Harvard. He also teaches at Boston College. I understand he has just written a book, "Negotiating Cooperation: U.S.-China Relations." I trust that that will be the focus or at least related to his testimony.

Dr. Ross, thank you for coming.

The entire statement for both of you gentlemen will be part of the record. You may proceed as you wish, Dr. Ross. Then we will hear from Mr. Fiedler.

**STATEMENT OF ROBERT S. ROSS, JOHN KING FAIRBANK  
CENTER FOR EAST ASIAN RESEARCH, HARVARD UNIVERSITY**

Mr. ROSS. Thank you very much. Thank you for the opportunity to appear before this committee on the important developments in U.S. foreign policy.

My objective today is not to limit my remarks to MFN but the entire U.S.-China relationship and ask how we can get China to behave in a way more congruent with American interests.

There can be no question that in many, many realms the Chinese are behaving in a way contrary to our interests and values. Whether in proliferation of missiles, nuclear weapons, chemicals, trade and protectionism, IPR violations, or human rights, China behaves in a way that we are simply not happy with.

As a policy issue, our objectives should be to develop policies that have the proper mix of coercion, conciliation, cooperation, and proper mix of bilateral pressures and multilateral pressures. We should ask to what degree Chinese behavior harms us and develop the proper mix accordingly.

Let me begin with proliferation. The prospect of China exporting missiles, nuclear technologies, chemicals, to such countries as Iran, Iraq, Syria, Libya, North Korea, is indeed a frightening prospect. The prospect of instability, war, involving Americans is simply not a pleasant one.

China's record, however, is mixed, calling for more nuance in American policy. I suggest that since the end of the cold war, China has exported one single set of missiles in violation of the MTCR. That is the missile to Pakistan. As far as missile exports go, that is not a particularly poor record.

When it comes to export and cooperation with other countries on nuclear energy, the Chinese Government has participated since the end of the cold war in only one such agreement, and that was with Iran, but it has canceled that agreement. That, too, I would suggest, reflects a policy which we would like to encourage.

Why did those two developments happen? One, because coercion has worked. There is credibility in American policy. Chinese leaders know if they export weapons, we will retaliate. Chinese leaders know if they have nuclear energy cooperation agreements with rogue States, we will retaliate. Coercion works, and it also works because they are government policies run by the PRC and they can control them.

Behavior has not been pristine, however. We are unhappy with Pakistan. However, their leverage is limited on Pakistan. The financial relationship with Pakistan is of vital interest. It is a vital security ally in a region in which China has vital interest. It has

simply made a decision to provide Pakistan with capabilities so as to represent Chinese interests in India and southern Asia.

I would suggest without a regional arms control initiative or without a significant quid pro quo, which I think America would be unwilling to make, we are not going to see an end to Chinese assistance to Pakistan.

Chinese behavior has also not been very cooperative in terms of dual-use exports. But unlike the export of weapons, I would suggest that is not government policy. I would suggest the Clinton Administration, in its recent policy on ring magnets, has acknowledged, export control systems are exceedingly difficult to develop.

The U.S. Government has a broad, massive bureaucracy of trained technician-engineers who understand technologies and understand how to regulate them. Such capabilities are simply beyond the scope of the Chinese Government.

Second, this is simply a chaotic Chinese society, and in some respects these exports of dual-use technologies are simply one aspect of corruption, which we are well aware is rampant in China.

In this respect, I would suggest sanctions will not work. We have an agreement with China that they will not export ring magnets. It may be true; this may work. We have an agreement which says they will not supply technologies to nuclear energy programs that do not have IAEA oversight.

I would suggest that to the extent that these dual-use technologies exist at local levels of society, we will see leakage, but it will not be leakage due to government policy but to lack of government control.

What do we do? I would suggest two things: First, we develop a multilateral approach; we bring China into the Missile Technology Control Regime. This will have two benefits: One, it will put the pressures on China from a multilateral setting and sanctions from a multilateral setting. I would suggest that would be more effective. Two, it will remove a Chinese pretext for not cooperating.

Look at economics, the trade deficit. It has been said before, and I will repeat it: This trade deficit does not harm the American worker. That is because this is simply the same trade deficit we had with Taiwan, South Korea, Singapore, and Hong Kong. They have moved it to China.

Second, it reflects to a large extent differences in savings rates, differences in labor costs. We had this problem with Japan. The problem with Japan did not end until the yen-dollar ratio changed as Japanese labor costs went up.

This is still an unfair trade, and what should we do? I would suggest we let China into the WTO. If we had let China into the GATT 10 years ago when we started these arrangements, we would now have the authority to pressure them and sanction them for failing to fulfill obligations we would like them to have today.

The clock has not begun to tick on Chinese behavior, and it will not begin to tick until they are in the WTO. Now the Chinese say so far, "We will not go in," and therefore we were lacking multilateral leverage.

IPR: It was suggested this is a game of Kabuki, and I would agree. We are in a situation where we were punishing the Chinese Government for the behavior of actions in Chinese society which

the Chinese Government cannot control. Why? Because this is corruption. It is easy to control dissent.

No Chinese bureaucrat likes dissent, but all lower bureaucrats have their hand in the till for corruption. When the Chinese fail to carry out these agreements, we have renewed crisis and renewed tensions.

I think the appropriate responses to IPR violations is the same response we had with dual-use exports. We should cooperate with the Chinese Government in developing a dual-use regime, as we are now doing. We should help the Chinese develop an IPR regulatory system. We should simultaneously move this debate into multilateral regimes so we can put greater sanctions and more effective sanctions when they come from our allies as well.

Human rights: Human rights is a difficult subject. U.S. policy has failed to improve Chinese Government treatment of dissidents, has failed to persuade the Chinese Government to expand political freedoms. On the other hand, the Chinese people are freer today since anytime since 1949. The role of the Chinese Government in the lives of the Chinese people continues to decline. That trend is directly related to economic prosperity and directly related to Chinese trade with the world.

The challenge is to respond to the lack of political freedom, not undermining those developments in Chinese society which we welcome. MFN is the wrong instrument because it punishes those Chinese who are benefiting from MFN and punishes them for developing freedoms. It is the wrong instrument because it doesn't work, because the Chinese leaders care more about maintaining power than they care about trade. Take away MFN, and they will still repress dissidents and they will still sanction political freedoms. They care more about power than they do trade.

So what do we do? What we do is, we abandon this MFN linkage which has been so counterproductive and we move again the debate to the high level of U.N. meetings, which the Chinese do not like. They fight very, very hard to resist international conventions, and the fact that they resist them suggests to what extent they don't like them.

Our policy thrust must be coercion when coercion is effective, multilateralism when that is effective, conciliation when that is effective. Coercion has worked with missile exports. Our credibility is intact. It has not worked with IPR; it has not worked with human rights; it has not worked with dual-use technologies. For each of these I would suggest that the use of coercive measures will backfire and undermine other important relationships. The answer is greater engagement and support engagement.

I support not only bilateral engagement, which this administration has focused on, but multilateral engagement, which this administration has not given enough attention to.

Thank you.

Mr. ROTH. Thank you very much, Dr. Ross.

Now I would like to introduce Mr. Jeffrey Fiedler, secretary-treasurer of Food and Allied Service Trades, AFL-CIO.

Mr. Fiedler, we appreciate your patience and, Dr. Ross, your patience in waiting until you had an opportunity to testify today. What you say is important to us. We welcome you here. Your entire

statement will be made part of the record also. You may proceed as you wish.

**STATEMENT OF JEFFREY FIEDLER, SECRETARY-TREASURER,  
FOOD AND ALLIED SERVICE TRADES DEPARTMENT, AFL-CIO**

Mr. FIEDLER. Thank you, Mr. Chairman. I will be brief.

It is well known that the AFL-CIO has always opposed granting MFN status to China. As late as last week, the Executive Council's important meeting reiterated that position. And, by the way, nothing, in our view, has happened in the last year within China to change our view. That implies, very correctly, that our views could change depending upon what happens.

Our primary consideration would be that real free and independent trade unions exist in China. None do, none are likely, and we don't expect that our principal position will change.

The annual debate, though, on MFN is, in our view, getting stranger ever year, sort of hackneyed, and is rife with fictions, and it doesn't go to the other very important considerations of national security, regional security in Asia, human rights, and generally America's role in a post-cold war world. Those issues haven't been addressed today; they have hardly been raised. Issues of resurgent Chinese nationalism replacing a dead Communist Party have not been addressed.

I would like to quickly go through the fictions that are replete in this debate. The first fiction is, if we cut off MFN, we will lose 200,000 jobs, or 170,000 jobs. Last year, by the way, the figure was 187,000 jobs, and there were fewer exports. So the illusive nature of these numbers bothers us.

If you take the National Trade Data Bank statistics for 1996 and trade with China, you segregate out things like organic chemicals, fertilizers, hides, and the like. You get \$4.8 billion worth of exports. On their best day, fertilizer and chemical production didn't create 20,000 jobs per billion. They might have created 20,000-something per billion in pollution, but they didn't create jobs, and in those numbers. So the numbers are ephemeral and false.

If we cut off MFN, Boeing and General Motors will take a hit. I was actually surprised because I believed what I was reading, that Boeing had been selling a lot of aircraft, and now I am beginning to believe, my friends, that they have sold those aircraft three and four and five times.

I say that because in 1993 America sold \$2.2 billion of aircraft and parts to China and last year sold and was paid for \$1.1 billion. To me, that is a 50 percent cut, and Boeing is already taking a hit based upon the statistics, and we have renewed MFN year after year.

Mr. ROTH. Mr. Fiedler, I don't want to take this out of your time. The NPR story on this said 1 out of every 10 aircraft they make is sold to the People's Republic of China or their airlines. What do you think of that?

Mr. FIEDLER. I think that is a very large number of aircraft to go from Boeing to China. I think it will soon be their largest customer. I think in the last 2 years they haven't bought and paid for as much as they have in 1993.

I think the Chinese buy Boeing aircraft for one reason: Boeing has 75 percent of the market; it is the best aircraft in the world. And having negotiated with airlines a lot and dealt with operations people, I know that U.S. airlines don't like to have six, seven, four different types of aircraft in their fleets; they prefer to have one and maybe 25 percent of another.

The other—by the way, on General Motors, General Motors doesn't export much of anything to China. It has, along with the other auto makers, agreed to create 28 auto parts plants that are going to service the United States market, which I suspect will bite us in well-paying jobs in the not too distant future.

The question of higher prices to consumers is bizarre and also sort of laughable. Let's understand that we have been held hostage. The toy manufacturers have focused well over 50 percent of their production in China; the shoes guys, 58 percent. Then they say if you interrupt MFN, you will hurt everybody. They are the ones, in fact, by putting so much production in China, who are putting us at risk.

Clothing is quite a different matter. China, in fact, according to the U.S. Customs Service, violates the quota in probably, and minimally, the same number of the quota, \$4.5 billion; \$5 to \$10 billion in illegal transshipments is costing U.S. jobs, is the estimate.

The idea we don't have any leverage with the Chinese is ludicrous; we have plenty. We just don't want to use the leverage. It may be a perfectly good, sound policy in the end not to use the leverage; it is debatable. But to say we don't have it is absolutely untrue.

The last notion that is particularly bothersome to us, sir, is that capitalism brings democracy or liberty trickles down to the people. We know that not to be the case in our own history, we know that not to be the case in every other Asian tiger, and we know that not to be the case in China.

The slightest form of labor agitation in China is punishable. A young man we know is put in Laogai for 3 years for designing a T-shirt with the words, "collective bargaining," on the front. He is now doing 3 more years for allegedly attempting to escape and is being thrown in with tubercular prisoners. We are not about to establish relationships with the All-Chinese Confederation of Trade Unions.

Democracy is built in quite a different way. It will be built by the Chinese people, it will not be built by us, but we have a role to play in creating an environment where they can thrive or at least survive.

Let me address, though, some fundamental foreign policy questions that are troublesome, that this committee should address and that Congress, in my view, has not addressed. Our relationship with China is getting worse, not better, and perhaps this is because there is a serious power struggle going on. In fact, the Chinese simply do not live up to the agreements they reach. Mr. Rohrabacher, or maybe Mr. Gilman, was sort of getting to that in his questioning today. The examples are many. I will just give you a few.

The MOU on forced labor in 1992 signed by the Bush Administration: The Secretary of State said in 1994 when they delinked and the MOU was a condition of renewal that the Chinese had



complied simply because the Senate came over to renegotiate it and they called it a new document. And now, when there is no political risk associated with telling the truth, the State Department Human Rights Report said the Chinese haven't complied for the last 14 or 15 months.

The Chinese never complied with the intellectual property rights agreements. Last year they never complied with their promises about proliferation in the past, and I am deeply skeptical about whether they will in the future.

Mr. FIEDLER. They have never complied with their promise to let the International Red Cross inspect forced labor camps. The list goes on.

Earlier today—and Mr. Kiam also mentioned it—we have a situation where the People's Armed Police of China has a company operating out of Southfield, Michigan. Xinxing operates out of El Monte, California. And the largest weapons trader run by the PLA general staff, Poly Technologies, is headquartered in the United States in Atlanta, Georgia.

Why on earth do we allow the American people to unwittingly subsidize the operations of the People's Liberation Army? To believe that they earn money from the sale of civilian goods, hard currency, and don't have any military applications of those earnings, is ludicrous on its face.

China, in Columbus, Ohio, Mr. Chairman, bought B-1 bomber factory machinery. Great concern was expressed. Catic is the company. The greatest concern was expressed on national television. Yet, we discovered 6 months later that that machinery, very fine tooling machinery, was diverted to the Nonshong military aircraft factory. They don't care.

We have no teeth in any of our policies. We have not demonstrated the ability to back our requests—I won't even characterize them as demands—with any action whatsoever. And I think that this Congress should debate those issues instead of avoiding them, as I think we have done in the past during these MFN debates.

Thank you.

Mr. ROTH. Thank you very much, Mr. Fiedler.

I would like you to think in the future about addressing this, if it was improved standard of living or shared economic progress and its impact upon democracy. I think "capitalism brings democracy" is a different issue, and you may have addressed that adequately, but I would like you to think about that for the future, if you would.

Mr. FIEDLER. I would be more than pleased to. I think that we get confused. We listen. Trade makes all of these changes. These changes are allegedly positive. But the question about whether or not real change can be made in similar times with other policies is not being addressed.

Mr. ROTH. Dr. Ross, you made a key point, I believe, that you think withdrawing MFN would hurt the focus of progress and pluralism in China. You also called for a more multilateralized approach to China, particularly on proliferation, as I understood your comments.

What would be your assessment of how successful it would be of having our European and our Asian allies support us in that kind of an approach to multilateralizing this issue?

Mr. ROSS. Well, as things now stand, we are out there alone.

Mr. ROTH. Yes, we are, as we are on MFN.

Mr. ROSS. As we are on MFN. And we may have leverage, but not when we are out there alone. Alternative suppliers, such as Airbus, are standing there ready to supply the Chinese. When you put something in a multilateral setting, your allies can't run, for the rules are there, they agreed to them, and you are able to negotiate with them in a setting agreed on prior.

I think that would be effective, particularly for trade issues and WTO, but also for MTCR. When we carry the burden of proliferation, we do two things. We put the burden on our bilateral relationship and thus harm Americans in the way the French or the British are not.

The second thing we do is, we make it difficult for the Chinese to cooperate with us because their political system is as divisive and as partisan as our own. One is more likely to get a success when you have multilateral pressures and when you are not asking the Chinese to succumb to American pressure. I think that would be effective in IPR, more effective than our current policy. That would be effective in MTCR issues, and that would be effective also for WTO issues.

I did mention—and you raised it—that is the question of whether China is becoming more pluralistic. I think the debate over trade and democracy, capitalism and democracy, seems to get caught up between short-term/long-term. The debate, as it was framed by those who are proponents of trade, is not that you will see democracy tomorrow. That will take 15 or 20 years, the way it took that way for South Korea and Taiwan. And the argument would be, we are seeing the social foundations of that happening already insofar as the Chinese people, I believe—and the case is a strong one—are freer today than ever before, free to criticize their government at will, the foreigners, and themselves alike.

What they cannot do is stand on a soap box, which would suggest to you, in many respects, the harsher treatment we are seeing of dissidents and political freedoms reflects a desperate Chinese Government that knows they are losing control of society, and that legitimacy is declining. That should not be surprising when pluralism takes root, when freedoms take root, in society.

Mr. ROTH. You know, Dr. Ross, I had a feeling when I was amidst the Chinese people in August of last year—I'm talking about the people in the street, working, taking their lunch over lunch hour—that the Chinese Government would have a very difficult time these several years later in acting like they did in Tiananmen Square.

I think there is a dramatic change in the attitude of the people that are becoming a consumer class and expressing some of their differences now, and I suspect 10 years from now that trend will have continued dramatically.

But Mr. Fiedler, I think, had a comment that he wanted to make in response perhaps—Dr. Ross first?

Mr. ROSS. Yes. I would like to agree with you on that. But I think this leadership is devoted to one thing, staying in power, and they are willing to do another Tiananmen, if necessary to do so. And I think the PLA will follow orders.

Having said that, legitimacy of this government, which they are also very aware of, will depend on a more accountable leadership, and that, I think, is an irresistible trend over the long term.

Mr. ROTH. I think they are going to have a very difficult time with the heavy-handed imposition of law and order in the future.

Mr. ROSS. Oh, I agree.

Mr. FIEDLER. No, but I don't think they are going to allow any mass demonstrations any time soon either, so they put themselves in that position.

My comment I wanted to make was that it is not good to compare Korea and China or any of the tigers. I would point out specifically in the case of Korea that it had a very vibrant religious movement that led to the pro-democracy movement that it also formed, although difficult. Free and independent trade union activity was very different.

So those two communities, which are integral to the development of democracy, there is really no comparison between China and Korea.

Mr. ROTH. Gentlemen, thank you very much for your testimony today. We very much appreciate it. I am sorry we kept you so long.

Mr. ROSS. Thank you.

Mr. ROTH. Your testimony is appreciated and will be, of course, a part of the record.

The Subcommittees meeting jointly will be adjourned.

[Whereupon, at 1:10 p.m., the Subcommittees were adjourned.]











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